National Association for Behavioral Healthcare and Affiliates

Audited Consolidated Financial Statements
and Related Communications

For the Years ended December 31, 2020 and 2019

National Association for Behavioral Healthcare and Affiliates

Consolidated Financial Statements and Related Communications

For the Years ended December 31, 2020 and 2019

Contents

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JohnsonLambert LLP
cpas + consultants

National Association for Behavioral Healthcare and Affiliates

Audited Consolidated Financial Statements and Supplementary Information

Years ended December 31, 2020 and 2019
with Report of Independent Auditors

National Association for Behavioral Healthcare and Affiliates

Audited Consolidated Financial Statements
and Supplementary Information

Years ended December 31, 2020 and 2019

Contents

Report of Independent Auditors

Board of Trustees
National Association for Behavioral Healthcare and Affiliates
Washington, DC

We have audited the accompanying consolidated financial statements of the National Association for Behavioral Healthcare and Affiliates (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Association for Behavioral Healthcare and Affiliates as of December 31, 2020 and 2019, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and consolidating schedules of activities on pages 16 - 17 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Johnson Lambert LLP

Vienna, Virginia
March 12, 2021

National Association for Behavioral Healthcare and Affiliates

Consolidated Statements of Financial Position

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents, including balances restricted in support of letter of credit of $15,000 in 2020 and 2019	$ 871,303	$ 2,242,022
Investments	3,136,399	2,965,924
Dues receivable	-	59,750
Prepaid expenses	276,481	71,281
Deferred compensation investments	324,451	263,528
Fixed assets, net	233,361	299,318
Total assets	$ 4,841,995	$ 5,901,823
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	$ 552,492	$ 759,465
Deferred revenue	83,750	1,671,141
Deferred rent	140,324	53,374
Deferred compensation	324,451	263,528
Total liabilities	1,101,017	2,747,508
Net assets:		
Net assets without donor restrictions	3,669,161	3,089,946
Net assets with donor restrictions	71,817	64,369
Total net assets	3,740,978	3,154,315
Total liabilities and net assets	$ 4,841,995	$ 5,901,823

See accompanying notes to the consolidated financial statements.

National Association for Behavioral Healthcare and Affiliates

Consolidated Statements of Activities

	Years ended December 31, 2020	2019
Change in net assets without donor restrictions		
Revenue:		
Membership dues	$ 3,773,294	$ 3,462,694
Annual meeting	29,711	458,803
Investment income, net	97,049	101,255
Publications	1,244	1,354
AHA consultants	10,000	10,000
	3,911,298	4,034,106
Net assets released from restrictions	17,284	63,488
Total support and revenue without donor restrictions	3,928,582	4,097,594
Expenses:		
Program services:		
Legislative	808,114	906,328
Regulatory	782,155	871,372
Communications	733,172	670,192
Policy	411,950	485,543
Annual Meeting	211,901	539,380
Political Action Committee	167,877	218,661
Membership Services	75,296	77,586
Total program services	3,190,465	3,769,062
Supporting services:		
Management and General	192,361	197,486
Membership Development	75,297	77,586
Total supporting services	267,658	275,072
Total expenses	3,458,123	4,044,134
Change in net assets without donor restrictions before change in fair value of investments	470,459	53,460
Change in fair value of investments	108,756	286,600
Change in net assets without donor restrictions	579,215	340,060
Change in net assets with donor restrictions		
Investment income, net	103	136
Contributions	24,629	60,391
Net assets released from restrictions	(17,284)	(63,488)
Change in net assets with donor restrictions	7,448	(2,961)
Change in net assets	586,663	337,099
Net assets, beginning of year	3,154,315	2,817,216
Net assets, end of year	$ 3,740,978	$ 3,154,315

See accompanying notes to the consolidated financial statements.

National Association for Behavioral Healthcare and Affiliates

Consolidated Statements of Functional Expenses

Year ended December 31, 2020

	Program Services								Supporting Services			
	Legislative	Regulatory	Communications	Policy	Annual Meeting	Political Action Committee	Membership Services	Total	Management and General	Membership Development	Total	Total Functional Expenses
Salaries and Benefits	$ 570,706	$ 570,706	$ 456,565	$ 228,282	$ 114,141	$ 114,141	$ 57,071	$ 2,111,612	$ 114,141	$ 57,071	$ 171,212	$ 2,282,824
Office and Depreciation	88,224	88,224	70,579	35,290	17,645	17,645	8,822	326,429	17,645	8,822	26,467	352,896
Accounting, HR and Legal	31,865	31,865	25,492	12,746	6,373	6,373	3,187	117,901	48,591	3,187	51,778	169,679
Printing, Production and Postage	9,992	9,992	138,793	3,997	56,824	1,998	999	222,595	1,998	999	2,997	225,592
Consultants	73,221	22,261	17,809	119,668	4,452	4,452	2,226	244,089	4,452	2,226	6,678	250,767
Meeting and Travel	13,476	42,076	10,310	5,155	9,060	2,578	1,289	83,944	2,578	1,289	3,867	87,811
Contributions, Dues and Subscriptions	5,419	5,419	4,335	2,168	1,084	16,084	542	35,051	1,084	542	1,626	36,677
Other	15,211	11,612	9,289	4,644	2,322	4,606	1,160	48,844	1,872	1,161	3,033	51,877
Total	$ 808,114	$ 782,155	$ 733,172	$ 411,950	$ 211,901	$ 167,877	$ 75,296	$ 3,190,465	$ 192,361	$ 75,297	$ 267,658	$ 3,458,123

Year ended December 31, 2019

	Program Services								Supporting Services			
	Legislative	Regulatory	Communications	Policy	Annual Meeting	Political Action Committee	Membership Services	Total	Management and General	Membership Development	Total	Total Functional Expenses
Salaries and Benefits	$ 566,913	$ 566,913	$ 453,531	$ 226,765	$ 113,383	$ 113,383	$ 56,691	$ 2,097,579	$ 113,383	$ 56,691	$ 170,074	$ 2,267,653
Office and Depreciation	86,480	86,480	69,184	34,592	17,296	17,296	8,648	319,976	17,296	8,648	25,944	345,920
Accounting, HR and Legal	38,117	38,117	30,494	15,247	7,624	7,624	3,811	141,034	49,937	3,811	53,748	194,782
Printing, Production and Postage	26,626	26,626	70,803	10,650	102,136	5,325	2,663	244,829	5,325	2,663	7,988	252,817
Consultants	113,111	44,630	20,489	185,443	5,122	5,122	2,561	376,478	5,122	2,561	7,683	384,161
Meeting and Travel	51,877	87,020	8,423	4,212	255,009	2,106	1,053	409,700	2,106	1,053	3,159	412,859
Contributions, Dues and Subscriptions	5,428	5,428	4,342	2,171	1,086	60,585	543	79,583	1,085	543	1,628	81,211
Other	17,776	16,158	12,926	6,463	37,724	7,220	1,616	99,883	3,232	1,616	4,848	104,731
Total	$ 906,328	$ 871,372	$ 670,192	$ 485,543	$ 539,380	$ 218,661	$ 77,586	$ 3,769,062	$ 197,486	$ 77,586	$ 275,072	$ 4,044,134

See accompanying notes to the consolidated financial statements.

National Association for Behavioral Healthcare and Affiliates

Consolidated Statements of Cash Flows

	Years ended December 31, 2020	2019
Cash flows from operating activities		
Change in net assets	$ 586,663	$ 337,099
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	162,897	122,320
Change in fair value of investments	(108,756)	(286,600)
Changes in operating assets and liabilities:		
Dues receivable	59,750	63,873
Prepaid expenses	(205,200)	(9,544)
Accounts payable and accrued expenses	(206,973)	(110,562)
Deferred revenue	(1,587,391)	583,215
Deferred rent	86,950	(24,732)
Deferred compensation liability	60,923	56,668
Net cash (used in) provided by operating activities	(1,151,137)	731,737
Cash flows from investing activities		
Purchases of fixed assets	(96,940)	(157,488)
Purchases of investments	(837,346)	(638,086)
Sales and maturities of investments	714,704	106,939
Net cash used in investing activities	(219,582)	(688,635)
Net change in cash and cash equivalents	(1,370,719)	43,102
Cash and cash equivalents, beginning of year	2,242,022	2,198,920
Cash and cash equivalents, end of year	$ 871,303	$ 2,242,022

See accompanying notes to the consolidated financial statements.

National Association for Behavioral Healthcare and Affiliates

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

Note A - Organization and Summary of Significant Accounting Policies

Organization

The National Association for Behavioral Healthcare and Affiliates (NABH or the Organization), formerly known as the National Association of Psychiatric Health Systems, is a non-profit organization that advocates for behavioral health and represents provider systems that are committed to the delivery of responsive, accountable, and clinically effective prevention, treatment, and care for children, adolescents, adults, and older adults with mental and substance use disorders. The NABH Education and Research Foundation (Foundation) is a non-profit organization that engages in the critical debates that affect behavioral health. Outcomes, the prospective payment system, consumer advocacy, quality assurance, ethics and public attitudes about mental illnesses are just some of the key challenges that the Foundation has addressed through hands-on research, conferences, and nationally distributed publications. The NABH Political Action Committee (PAC) is a non-partisan committee designed to help behavioral healthcare providers deliver high-quality behavioral health services through legislation. NABH fulfills its mission by focusing its efforts in the following program areas:

Legislative: NABH supports behavioral healthcare legislation and works with members of congress to help them pass bills to improve access, coverage and fair payment.

Regulatory: Federal agencies periodically issue regulations that impact the behavioral healthcare industry and NABH writes comments to these agencies representing our views on these regulations. NABH's goal is to support a balanced approach to regulatory requirements so that patients have access to care but providers are able to deliver that care in a cost efficient, high quality manner.

Communications: This program area focuses on getting the behavioral healthcare industry’s message out to Capitol Hill, federal agencies, media, and other stakeholders. The Organization also regularly communicates to the NABH membership on activities and legislative and regulatory initiatives impacting the industry.

Policy: The NABH team conducts research and analyzes issues related to behavioral healthcare to help inform the advocacy positions we take on regulations and legislation. Policy development is also used to help establish new advocacy initiatives for the Organization, which can be promoted through legislative and/ or regulatory strategies.

Membership: Membership focuses on behavioral healthcare advocacy that achieves results. Members include top decision-makers and senior executives within the behavioral healthcare systems in order to develop and lead behavioral healthcare coalitions. Membership dues are used to commit money and resources to advocacy and operate an effective political action committee, as well as to invest in studies and analyses needed to win advocacy issues.

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Organization (continued)
Annual Meeting: NABH holds an annual conference for its members to update the members on the latest trends in the industry. The conference is also an opportunity for members to network with each other. The NABH team works with its Program Committee to develop the agenda for the meeting, invite speakers, and handle all various logistics related to holding an Annual Meeting.

Political Action Committee (PAC): The Organization has a PAC, which contributes to congressional candidates that support our industry priorities. As part of this process, the NABH team solicits contributions from membership to support the PAC activities. The NABH team also handles the numerous administrative activities that are required as part of the federal requirements to operate a PAC.

Management and General: This function provides oversight of all of the day to day operations of the Organization.

Membership Development: The membership program focuses on retention and recruitment of new members. Some key functions of membership include maintaining and updating the membership data base, managing the Board of Trustees and the various Organization committees, recruiting new members through outreach initiatives, and ensuring that the membership is receiving all the services entitled to them through membership in the Organization.

Principles of Consolidation
The consolidated financial statements include the accounts of NABH, the Foundation and the PAC (collectively, the Organization). There are no significant intercompany transactions between these organizations.

Basis of Accounting
The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Measure of Operations
The consolidated statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to NABH's ongoing program services. Nonoperating activities is limited to the change in fair value from investments.

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Income Tax Status
NABH is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code (IRC). However, certain activity of NABH is subject to unrelated business income tax. The Foundation is exempt from payment of income taxes on its exempt activities under IRC Section 501(c)(3). The Foundation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of IRC Section 509(a). The PAC is subject to income taxes on its interest income, less directly related costs and expenses, under IRC Section 527. Management has concluded that all three of the entities have properly maintained their respective tax status. Additionally, management has concluded that there are no uncertain tax positions as of December 31, 2020.

Subsequent Events
The Organization has performed an evaluation of subsequent events through March 12, 2021, which is the date the consolidated financial statements were available to be issued and has considered any relevant matters in the preparation of the consolidated financial statements and footnotes.

COVID-19 Risks and Uncertainties
In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. The Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on the Organization and its members, employees and vendors. As such, COVID-19 could have a material adverse effect on the Organization’s financial position in the future. The ultimate duration and impact of the COVID-19 outbreak on the Organization’s financial position cannot be reasonably estimated at this time.

Estimates
The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents
All money market accounts and highly liquid debt instruments purchased with a maturity of twelve months or less are considered cash equivalents. The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits as prescribed by law. The Organization holds funds with financial institutions in excess of the FDIC insured amount; however, the Organization has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

A letter of credit is established in favor of the Organization's office landlord to serve as a deposit for any damages incurred to the property at 900 17th Street, NW, Washington, DC.

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Investments and Fair Value Measurements
U.S. GAAP establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, for substantially the entire period, for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

Investments are reported at fair value based on quoted market prices with the net change in fair value reported in the consolidated statements of activities. Net change in fair value consists of total realized and unrealized gains and losses, net from investments. Investment income, net consists of interest and dividends earned from cash, cash equivalents and investments and any material external or internal investment management expenses. Gains and losses arising from the sale, maturity and other dispositions are accounted for on a specific identification basis calculated as of the trade date.

Fixed Assets
Depreciable assets including furniture, computer software and equipment are recorded at cost and are depreciated over the estimated useful lives of the assets (3 to 5 years) using the straight line method. A capitalization threshold of $1,000 was established for assets purchased, including leasehold improvements. Leasehold improvements are depreciated over the lease period.

Net Assets
In the accompanying consolidated financial statements, net assets and revenue have been classified based on the existence or absence of donor-imposed restrictions in accordance with U.S. GAAP for non-profit organizations. The classes of net assets and the changes therein are as follows:

- Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Net Assets (continued)

- 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-imposed restrictions are released when a restriction is satisfied, that is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both.

Revenue Recognition

Membership dues: The Organization recognizes revenue from membership dues over the membership cycle, which is generally one year, during which time members have continuous access to advocacy services for substance use and access to the NABH Membership Directory and Annual Survey, which are considered to be one performance obligation for financial reporting purposes. Amounts received in advance of a given membership period for membership dues are recorded as deferred revenue when received and recognized as revenue over the course of the applicable membership period. Membership dues are non-refundable.

Annual Meeting: The Organization holds an annual meeting during the year. The proceeds from registration and booth sales are recognized as revenue at the date of the meeting when goods or services are provided. Amounts received in advance for meetings are recorded as deferred revenue when received and recognized as revenue when the meeting takes place. Refunds for registration, less a $50 cancellation fee, are permitted with a written notice five business days before the Annual Meeting. There are no refunds permitted within five days of the meeting.

Contributions: Contributions are recognized when the intent to give is received.

Functional Allocation of Expenses

The Organization's expenses have been reported on a functional basis. Accordingly, salaries and benefits, office rent and depreciation, accounting, HR and legal, printing, production and postage, consultants, meeting and travel, contributions, dues and subscriptions and other expenses have been allocated based upon an estimate of salaries and employee time spent on each program.

Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

Note B - Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the consolidated statement of financial position, comprise the following:

	2020	2019
Cash and cash equivalents	$ 766,705	$ 2,144,878
Accounts receivable	-	59,750
Investments appropriated for current use	3,136,399	2,965,924
	$ 3,903,104	$ 5,170,552

The Organization is not substantially supported by restricted contributions. Restricted contributions are maintained in separate segregated funds, and are not considered to be available for general expenditure. As part of the Organization's liquidity management, the Organization has a policy to invest funds that are not anticipated to be needed for general expenditure within one year in long-term investments. Investments including mutual funds, common stocks, and bonds which are invested in a diversified portfolio with underlying holdings that have an asset mix that is approximately 65% equities and 35% fixed income. Although the Organization does not intend to use the long-term investments for general expenditure, they are unrestricted liquid assets that could be used, should the need arise, and therefore are included in the financial assets available for general expenditure. As deferred compensation investments are intended for the retirement benefit of employees, they are not included in the amounts shown above.

Note C - Investments and Fair Value Measurements

At December 31, the fair value measurements and classifications of investments are as follows:

	2020	2019	Level
Mutual funds and exchange traded funds	$ 2,524,805	$ 2,384,193	1
Common stocks	479,356	460,005	1
Government bonds	86,731	78,520	2
Corporate bonds	45,507	43,206	2
Total investments	$ 3,136,399	$ 2,965,924	

At December 31, the fair value measurements and classification of deferred compensation investments are as follows:

	2020	2019	Level
Deferred compensation investments:			
Mutual funds	$ 101,243	$ 95,925	1
Exchange traded products	214,722	159,731	1
Cash and cash equivalents	8,486	7,872	N/A
Total deferred compensation investments	$ 324,451	$ 263,528	

Note C - Investments and Fair Value Measurements (Continued)

Total return on investments consists of the following:

	2020	2019
Investment income, net	$ 97,152	$ 101,391
Unrealized gains, net	108,229	285,857
Realized gains, net	527	743
Change in fair value of investments	108,756	286,600
Total return on investments	$ 205,908	$ 387,991

Note D - Fixed Assets

Fixed assets, net consisted of the following at December 31:

	2020	2019
Furniture and fixtures	$ 145,975	$ 135,577
Computer software and equipment	902,234	815,691
Leasehold improvements	63,136	63,136
Total fixed assets	1,111,345	1,014,404
Accumulated depreciation	(877,984)	(715,086)
Total fixed assets, net	$ 233,361	$ 299,318

Note E - Deferred Compensation

The Organization adopted a deferred compensation plan during 2010 under section 457(b) of the Internal Revenue Code (IRC) for the President and Chief Executive Officer (CEO). During 2017, the Organization established a deferred compensation plan under 457(f) of the IRC. The President and CEO may choose to have compensation deferred by the amount equal to the maximum percentage allowable under the limits of Section 457 of the Code.

Employer contributions to these plans were $28,689 and $29,682 during the years ended December 31, 2020 and 2019, respectively. The deferred compensation investments and related liabilities on the consolidated statements of financial position at December 31, 2020 and 2019 for these plans reflect the combined deferred compensation plans mentioned above.

Note F - Net Assets With Donor Restrictions

Net assets with donor restrictions for the Organization was as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Specific Purpose - PAC	$ 71,817	$ 64,369

Note F - Net Assets With Donor Restrictions (Continued)

Net assets released from net assets with donor restrictions for the Organization are as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Specific Purpose - PAC	$ 17,284	$ 63,488

Note G - Retirement Plan

The Organization sponsors a 401(k) profit sharing plan for eligible employees that allows for immediate employee eligibility. The Organization also makes discretionary matching contributions for eligible employees each year. Retirement plan expense totaled $164,958 and $204,547 for the years ended December 31, 2020 and 2019, respectively.

Note H - Operating Lease

The Organization entered into a non-cancelable lease for office space at 900 17th Street, NW, Washington DC, on September 1, 2009. This lease is for 3,000 square feet of office space. In March 2019, the Organization executed a new lease, which is effective on January 1, 2020 and expires on February 28, 2027. The lease provides for annual rate increases over the life of the lease and provided for certain allowances for leasehold improvements and rent abatements. U.S. GAAP requires recording rent expense, abatements and allowances on a straight-line basis over the term of the lease. The difference in accounting treatment between the accrual basis of accounting and the cash outlay requirements is reported as deferred rent in the consolidated statements of financial position.

Future minimum lease payments under this operating lease are as follows as of December 31, 2020:

2021	$ 187,590
2022	192,270
2023	197,070
2023	201,990
2024	207,060
2025 and thereafter	248,475
Total	$ 1,234,455

Rent expense for the years ended December 31, 2020 and 2019 was $177,652 and $211,164, respectively.

Note I - Hotel Commitment

The Organization has contracts with Mandarin Oriental for the annual meetings in 2021 through 2023. The contracts contain a clause whereby the Organization is responsible for costs in the event of cancellation. The extent of these costs are dependent on the number of days the cancellation is made prior to the scheduled event. The potential liability for canceling the meeting contracts as of December 31, 2020 is approximately $465,000. The Organization has sufficient assets to cover any potential losses.

Note J - Concentration of Membership Dues

The Organization receives a significant portion of its membership dues from two members. For the years ended December 31, 2020 and 2019, combined dues from these members represented 43% and 47% of total membership dues for the Organization, respectively.

National Association for Behavioral Healthcare and Affiliates

Consolidating Schedules of Financial Position

	December 31, 2020				December 31, 2019			
	NABH	Foundation	PAC	Total	NABH	Foundation	PAC	Total
Assets								
Cash and cash equivalents, including restricted cash balances	$ 766,705	$ 32,781	$ 71,817	$ 871,303	$ 2,144,878	$ 32,775	$ 64,369	$ 2,242,022
Investments	3,136,399	-	-	3,136,399	2,965,924	-	-	2,965,924
Dues receivable	-	-	-	-	59,750	-	-	59,750
Prepaid expenses	276,481	-	-	276,481	71,281	-	-	71,281
Deferred compensation investments	324,451	-	-	324,451	263,528	-	-	263,528
Fixed assets, net	233,361	-	-	233,361	299,318	-	-	299,318
Total assets	$ 4,737,397	$ 32,781	$ 71,817	$ 4,841,995	$ 5,804,679	$ 32,775	$ 64,369	$ 5,901,823
Liabilities and net Assets								
Liabilities:								
Accounts payable and accrued expense	$ 552,492	$ -	$ -	$ 552,492	$ 759,465	$ -	$ -	$ 759,465
Deferred revenue	83,750	-	-	83,750	1,671,141	-	-	1,671,141
Deferred rent	140,324	-	-	140,324	53,374	-	-	53,374
Deferred compensation	324,451	-	-	324,451	263,528	-	-	263,528
Total liabilities	1,101,017	-	-	1,101,017	2,747,508	-	-	2,747,508
Net assets:								
Net assets without donor restrictions	3,636,380	32,781	-	3,669,161	3,057,171	32,775	-	3,089,946
Net assets with donor restrictions	-	-	71,817	71,817	-	-	64,369	64,369
Total net assets	3,636,380	32,781	71,817	3,740,978	3,057,171	32,775	64,369	3,154,315
Total liabilities and net assets	$ 4,737,397	$ 32,781	$ 71,817	$ 4,841,995	$ 5,804,679	$ 32,775	$ 64,369	$ 5,901,823

National Association for Behavioral Healthcare and Affiliates

Consolidating Schedules of Activities

	Year ended December 31, 2020				Year ended December 31, 2019			
	NABH	Foundation	PAC	Total	NABH	Foundation	PAC	Total
Changes in net assets without donor restrictions								
Revenue:								
Membership dues	$ 3,773,294	$ -	$ -	$ 3,773,294	$ 3,462,694	$ -	$ -	$ 3,462,694
Annual meeting	29,711	-	-	29,711	458,803	-	-	458,803
Investment income, net	97,043	6	-	97,049	101,207	48	-	101,255
Publications	1,244	-	-	1,244	1,354	-	-	1,354
AHA consultants	10,000	-	-	10,000	10,000	-	-	10,000
	3,911,292	6	-	3,911,298	4,034,058	48	-	4,034,106
Net assets released from restrictions	-	-	17,284	17,284	-	-	63,488	63,488
Total support and revenue without donor restrictions	3,911,292	6	17,284	3,928,582	4,034,058	48	63,488	4,097,594
Expenses:								
Program services:								
Legislation	808,114	-	-	808,114	906,328	-	-	906,328
Regulatory	782,155	-	-	782,155	871,372	-	-	871,372
Communications	733,172	-	-	733,172	670,192	-	-	670,192
Policy	411,950	-	-	411,950	485,543	-	-	485,543
Annual Meeting	211,901	-	-	211,901	539,380	-	-	539,380
Political Action Committee	150,593	-	17,284	167,877	155,173	-	63,488	218,661
Membership Services	75,296	-	-	75,296	77,586	-	-	77,586
Total program services	3,173,181	-	17,284	3,190,465	3,705,574	-	63,488	3,769,062
Supporting services:								
Management and General	192,361	-	-	192,361	197,486	-	-	197,486
Membership Development	75,297	-	-	75,297	77,586	-	-	77,586
Total supporting services	267,658	-	-	267,658	275,072	-	-	275,072
Total expenses	3,440,839	-	17,284	3,458,123	3,980,646	-	63,488	4,044,134
Change in net assets without donor restrictions before change in fair value of investments	470,453	6	-	470,459	53,412	48	-	53,460
Change in fair value of investments	108,756	-	-	108,756	286,600	-	-	286,600
Change in net assets without donor restrictions	579,209	6	-	579,215	340,012	48	-	340,060
Changes in net assets with donor restrictions								
Investment income, net	-	-	103	103	-	-	136	136
Contributions	-	-	24,629	24,629	-	-	60,391	60,391
Net assets released from restrictions	-	-	(17,284)	(17,284)	-	-	(63,488)	(63,488)
Change in net assets with donor restrictions	-	-	7,448	7,448	-	-	(2,961)	(2,961)
Change in net assets	579,209	6	7,448	586,663	340,012	48	(2,961)	337,099
Net assets, beginning of year	3,057,171	32,775	64,369	3,154,315	2,717,159	32,727	67,330	2,817,216
Net assets, end of year	$ 3,636,380	$ 32,781	$ 71,817	$ 3,740,978	$ 3,057,171	$ 32,775	$ 64,369	$ 3,154,315

TAB 2

JohnsonLambert LLP
cpas + consultants

National Association for Behavioral Healthcare

2020 Audit
Required Communications

March 12, 2021

Board of Trustees
National Association for Behavioral Healthcare and Affiliates

We have audited the consolidated financial statements of National Association for Behavioral Healthcare and Affiliates (collectively, the Organization) as of and for the year ended December 31, 2020 and have issued our report thereon dated March 12, 2021.

The auditor is responsible for forming and expressing an opinion about whether the consolidated financial statements, that have been prepared by management with the oversight of those charged with governance, are presented fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America.

The auditor is also responsible for communicating significant matters related to the consolidated financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Auditing standards generally accepted in the United States of America do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance.

In accordance with our professional standards we would like to share the following:

Significant Accounting Policies and Their Application

Management is responsible for the selection and use of appropriate accounting policies. As is the case with most organizations, the Organization has available alternative accounting principles from which to choose. The significant accounting policies followed by the Organization are described in Note A to the consolidated financial statements.

The accounting policies selected and applied by the Organization are appropriate under the circumstances and are consistent with those used by other similar organizations.

No new accounting policies were adopted.

The application of existing policies was not changed during the year ended December 31, 2020.

We noted no transactions entered into by the Organization during the year for which there is lack of authoritative guidance or consensus. We noted no significant transactions that have been recognized in the consolidated financial statements in a different period than when the transaction occurred.

New Accounting Pronouncements

Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, and its subsequent amendments, is effective for non-public entities as of and for the year ended December 31, 2022 and may be early adopted. The implementation deadline was extended from its original effective date in 2020 to permit additional time for necessary education before undertaking the changes that will be required. ASU 2016-02 is intended to improve financial reporting about leasing transactions. The ASU requires lessees to recognize a right-of-use (ROU) asset and lease liability on the balance sheet for all leases other than short-term leases. For operating leases, an entity records lease expense on a straight-line basis over the lease term and all payments are classified as operating on the statement of cash flows. The lease term is equal to the noncancelable portion of the lease plus/minus any option to extend or terminate the lease the lessee is reasonably certain to exercise. For leases with a term of 12 months or less, an entity may elect to record the lease expense on a straight-line basis over the lease term and not recognize the ROU assets and liabilities.

We are developing a white paper, questionnaire and practice aid to assist clients in implementing the lease standards.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based upon management's current judgments.

The consolidated financial statements contain the following significant estimates:

- Allocation of salary and overhead expenses among program services and supporting services.

Related Party Relationships and Transactions

An objective of the audit is to obtain an understanding of such matters sufficient to be able to recognize fraud risk factors that are relevant to the identification and assessment of the risks of material misstatement due to fraud and conclude whether the consolidated financial statements, insofar as they are affected by those relationships and transactions, achieve fair presentation.

Another objective of the audit is to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the consolidated financial statements. There are no significant related party transactions.

Significant Difficulties Performing the Audit

No significant difficulties were encountered in performing the audit.

Management Representations and Uncorrected Misstatements

We have requested certain representations from management that are included in the management representation letter, which is included as an exhibit to this document.

We are not aware of any uncorrected misstatements.

Audit Adjustments

No audit adjustments were recorded.

Disagreements with Management, Including Matters Discussed and Resolved

We are required to report any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the Organization's consolidated financial statements or the auditor's report.

There were no disagreements with management.

Management's Consultations with Other Accountants

We are aware of the consultation with Vault Consulting, LLC, outsourced accountants, who provide advice on routine accounting matters. We are responsible for discussing with those charged with governance our views about significant matters that were subject to the consultation. We do not consider the above an unusual service or one that suggests that management is pressuring us to accommodate a nonstandard accounting practice.

Significant Issues Discussed or Subject to Correspondence with Management

The following significant matters were discussed or subject to correspondence with management:

- We discussed the impacts of the COVID-19 pandemic on the Organizations operations, as disclosed in the notes to the audited financial statements.

Financial Statements Included in an Organization-Prepared Document

We are not aware of any Organization prepared document that will contain the audited consolidated financial statements.

Independence

We are independent with respect to the Organization in accordance with the applicable independence rules.

Changes to Auditor's Report and Auditing Standards for 2021 Audits

The American Institute of Certified Public Accountants (AICPA) has issued several Statements on Auditing Standards that are effective for audits of financial statements for periods ending on or after December 15, 2021.

Changes to Auditor's Report and Auditing Standards for 2021 Audits (Continued)

The new standards significantly modify the form and content of the auditor's report, make the auditor's report more informative and relevant, make other related changes to the audit process, and more closely align the AICPA auditor's reporting standards with the Public Company Accounting Oversight Board (PCAOB) and International Auditing and Assurance Standards Board (IAASB) standards.

We have attached a white paper detailing the new requirements.

As described in the white paper, the Institute will have the option of engaging us to report on Key Audit Matters (KAMs). Your engagement team is available to discuss this optional reporting. Unless you have informed us that you wish to elect this optional reporting, we will proceed with our 2021 engagement letter under the assumption that you do not wish to engage us for the KAM reporting. In order for the 2021 audit to be conducted as efficiently as possible, if you do wish to elect this additional reporting, we ask that you inform us no later than July 1, 2021.

This letter is intended solely for the information and use of the Board of Trustees and management and is not intended and should not be used by anyone other than those specified parties.

We appreciate the cooperation and courtesies extended to us by the Organization's personnel. Please do not hesitate to contact us if you would like clarification on these or any other matters.

Johnson Lambert LLP

Vienna, Virginia
March 12, 2021

National Association for Behavioral Healthcare

Access. Care. Recovery.

March 12, 2021

Johnson Lambert LLP
2650 Park Tower Drive, Suite 801
Vienna, Virginia 22180

Attn: Paul Preziotti

This representation letter is provided in connection with your audits of the consolidated financial statements and supplementary information of the National Association for Behavioral Health and Affiliates (collectively, "the Organization") as of and for the years ended December 31, 2020 and 2019 for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the consolidated financial position as of December 31, 2020 and 2019, the activities, functional expenses and cash flows for the years then ended of the Organization in accordance with accounting principles generally accepted in the United States (U.S.GAAP) and for the presentation of the supplemental schedules in accordance with the applicable criteria.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, as of the date of this letter, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Consolidated Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated October 27, 2020, for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. GAAP and for the presentation of the supplementary information and other financial information in accordance with the applicable criteria.

2. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls and programs relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility to ensure that the Organization’s operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts in the Organization’s consolidated financial statements.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6. All liabilities resulting from retirement obligations, deferred compensation agreements, and severance packages have been recorded in the consolidated financial statements and disclosed in the notes to the consolidated financial statements.

7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

8. In regards to the fact that your firm's tax department provided certain tax services to us, we have:
    a. Made all management decisions and performed all management functions;
    b. Established and maintained appropriate internal controls;
    c. Designated a competent employee, Shawn Coughlin, to evaluate and accept responsibility for the results of the tax services performed by your firm's tax department.

9. All events subsequent to the date of the consolidated financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

10. We are not aware of any significant uncorrected misstatements.

11. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

12. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

13. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

14. Guarantees, whether written or oral, under which the Organization is contingently liable have been properly reported or disclosed in the consolidated financial statements.

15. Material concentrations known to management have been properly disclosed in accordance with GAAP. Concentrations refer to volumes of business, revenues, available sources of

supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

16. The methods and significant assumptions as disclosed in the consolidated financial statements were used to determine fair values of financial instruments and result in a measure of fair value appropriate for financial statement measurement and disclosure purposes. The categorization of the Organization's investments into the hierarchical levels as defined by ASC 820, Fair Value Measurements, is based on the lowest level of significant input to the securities' valuation.

17. In regards to the fact that your firm assisted us by drafting the consolidated financial statements and supplementary information, including appropriate disclosures required by U.S. GAAP, we have:
    a. Made all management decisions and performed all management functions.
    b. Designated an individual, Shawn Coughlin, who possesses suitable skill, knowledge or experience to oversee the services.
    c. Evaluated the adequacy and results of the draft preparation by reviewing and accepting the consolidated financial statements as complete and accurate.
    d. Accepted responsibility for the consolidated financial statements and supplementary information.

18. In regards to the supplementary information, we:
    a. Note the methods of measurement or presentation have not changed from those used in the prior period.
    b. Have notified you of any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information; and
    c. Agree that when the supplementary information is not presented with the audited consolidated financial statements, management will make the audited consolidated financial statements readily available to the intended users of the supplementary information and the auditor's report thereon.

19. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

20. The Organization is an exempt organization under 501(c)(6) of the Internal Revenue Code (IRC). The NABH Educational and Research Foundation is an exempt organization under 501(c)(3) of the IRC. The NABH Political Action Committee is subject to income taxes on its interest income, less directly related costs and expenses, under IRC Section 527. We are not aware of any activities that would jeopardize the Organization's tax exempt status and all activities subject to tax on unrelated business income or excise tax or other tax have been properly reported. All required filings with tax authorities are up to date. We have not been informed of any tax reviews by federal or state taxing authorities. There is no tax position considered to be uncertain if it was to undergo an inspection by the IRS or state authorities.

21. Given the limited impact on the users of the consolidated financial statements and overall immaterial activity of the NABH Education and Research Foundation, we believe the presentation of its activities as unrestricted is reasonable in nature.

22. We have complied with Federal Election Commission (FEC) requirements, including the limitations on maximum contributions from individuals and limitations imposed on maximum disbursements to campaigns.

23. The Organization has satisfactory title to all owned assets. We understand that it is our responsibility to report any liens, encumbrances and/or pledged assets in the Organization's consolidated financial statements. As of and for the years December 31, 2020 and 2019 we are not aware of any liens, encumbrances or pledged assets except for the balances restricted in support of letter of credit established in favor of the Organization's office landlord to serve as a deposit for any damages incurred to the property at 900 17th Street, NW, Washington, DC.

24. We have evaluated the impact to our operations and financial position of COVID-19 through the date of this letter. There are no known material impacts to our financial position, including impairment of assets, loss contingencies, or negative impacts on operations that have not previously been disclosed. The consolidated financial statements adequately disclose the risks and uncertainties as a result of COVID-19.

Information Provided

1. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the consolidated financial statements such as records, documentation and other matters;
    b. Additional information that you have requested from us for the purpose of the audit; and
    c. Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.

2. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

3. We have disclosed to you the results of our risk assessment as to how and where the consolidated financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any fraud or suspected fraud that affects the Organization and involves:
    a. Management;
    b. Employees who have significant roles in internal control; or
    c. Others when the fraud could have a material effect on the consolidated financial statements

5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Organization's consolidated financial statements communicated by employees, former employees, or others.

6. We are not aware of any undisclosed known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the consolidated financial statements.

7. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting that could have a material effect on the consolidated financial statements.

8. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the consolidated financial statements.

9. We have disclosed to you the identity of the Organization's related parties and all the related party relationships and transactions of which we are aware.

10. We have provided you information concerning monetary related party transactions and amounts receivable or payable from related parties, including support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arms-length transaction. There are no significant related party transactions.

DocuSigned by:

Shawn Coughlin

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Shawn Coughlin
President and CEO

900 17th Street, NW, Suite 420
Washington, DC 20006-2507

Phone: 202.393.6700
Email: nabh@nabh.org
Web: www.nabh.org

Vault
Accounting. Analytics. Research.

March 12, 2021

Johnson Lambert LLP
2650 Park Tower Drive, Suite 801
Vienna, VA 22180

Dear Mr. Preziotti,

This representation letter is provided in connection with your audit of the consolidated financial statements and supplementary information of the National Association for Behavioral Healthcare and Affiliates (collectively, the Organization) as of and for the years ended December 31, 2020 and 2019 for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the consolidated financial position as of December 31, 2020 and 2019, the activities, functional expenses and cash flows for the years then ended of the Organization in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and for the presentation of the supplemental schedules in accordance with the applicable criteria.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The consolidated financial statements and supplementary information referred to above are fairly presented in conformity with U.S. GAAP.

2. We have made available to you all financial records and related data.

3. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
    a. Management,
    b. Employees who have significant roles in internal control, or
    c. Others where the fraud could have a material effect on the consolidated financial statements and supplementary information.

4. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, regulators, or other.

Vault Consulting, LLC
8401 Greensboro Drive
Suite 500
McLean, VA 22102
703.652.0205
www.vaultconsulting.com

5. The Organization is responsible for adopting sound accounting policies, establishing and maintaining a system of internal controls, and preventing and detecting fraud.
6. We are not aware of any material transactions that have not been properly recorded in the accounting records underlying the consolidated financial statements and supplementary information.

7. We are not aware of any uncorrected financial misstatements in the aforementioned consolidated financial statements and supplementary information as of the date of this letter.

8. To the best of our knowledge and belief, no events have occurred subsequent to the consolidated statement of financial position date that would require adjustment to, or disclosure in the aforementioned consolidated financial statements and supplementary information as of the date of this letter.

Jessica Bradshaw, CPA

Vault Consulting, LLC
Outsourced Accounting

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8401 Greensboro Drive
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McLean, VA 22102
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Johnson Lambert LLP
cpas + consultants

March 2021

Transformation of the Auditor's Report

Authors:
Diane Walker, CPA, Magali Welch, CPA, CA, AIAF

Johnson Lambert LLP is dedicated to keeping you up to date on the impact that changes to auditing standards will have on the auditor's report on your financial statements and to the audit process. The American Institute of Certified Public Accountants (AICPA) has issued Statement on Auditing Standards (SAS) 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures* as an Auditor's Report Suite, as well as several other SASs*.

*Full list of standards on page eight.

This white paper presents the most impactful changes to the auditor’s report and other related changes to the audit process, which are effective for audits of financial statements for periods ending on or after December 15, 2021.

SAS 134 does not apply to auditor reporting on financial statements of employee benefit plans subject to ERISA. Such auditor’s reports are addressed in SAS 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. For more information, see Johnson Lambert LLP's white paper on SAS 136.

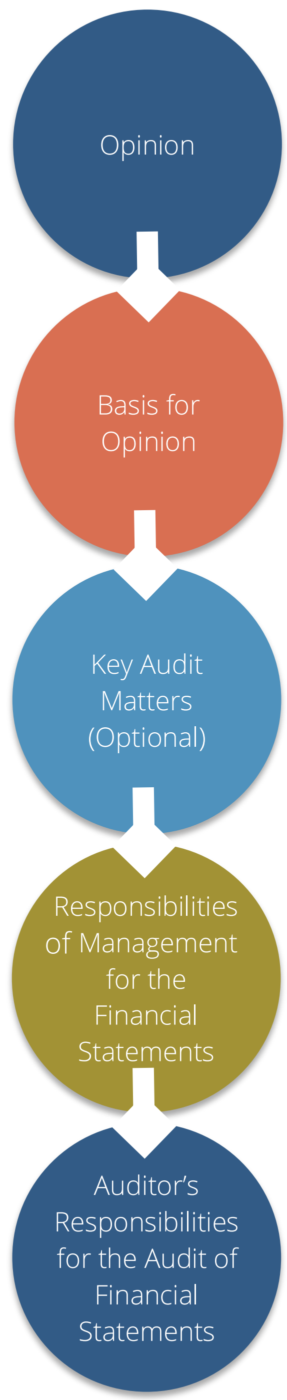
Background and Overview

In an effort to make the auditor’s report more informative and relevant and to more closely align its auditor’s reporting standards with the Public Company Accounting Oversight Board (PCAOB) and International Auditing and Assurance Standards Board (IAASB), the AICPA released the Auditor’s Report Suite, which significantly modifies the form and content of the auditor’s report and also made other related changes to the audit process.

The Auditor’s Report Suite supersedes several AU-C sections in their entirety and introduces AU-C Section 701, *Communicating Key Audit Matters in the Independent Auditors Report*. The communication of key audit matters (KAMs) are optional and included in the auditor’s report only when management and those charged with governance engage the auditor to do so.

Independent Auditor's Report - New Layout & Content

The independent auditor’s report has been rearranged and provides substantially more details. The illustrative examples in the Auditor’s Report Suite report the content in the following sequence:



Independent Auditor's Report

[Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for **one year after the date that the financial statements are issued**.

Opinion

Now required to be first.

Basis for Opinion

Required to follow Opinion.

NEW statement on independence and ethical responsibilities.

Responsibilities of Management for the Financial Statements

NEW statement on responsibility for evaluating going concern.

Review Exhibit A – for Illustrative Auditor's Report on Comparative Financial Statements Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America when the auditor has not been engaged to report KAMs.

Newly required information is in mustard text.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ABC Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Signature of the auditor’s firm
City and state where the auditor’s report is issued
Date of the auditor’s report

Johnson Lambert | Transformation of the Auditors Report

Auditor's Responsibilities for the Audit of the Financial Statements

Now includes descriptions of:

- Reasonable assurance
- Circumstances that may prevent material misstatements from being detected
- Materiality
- Requirement to conclude on the entity’s ability to continue as a going concern
- Exercising professional judgement and maintaining professional skepticism
- Required communications with those charged with governance

Key Audit Matters (optional)

The guidance gives management and those charged with governance the option to engage the auditor to communicate KAMs within the auditor's report. If this optional reporting is elected, it will appear in the auditor's report following the "Basis for Opinion."

KAMs are:

Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

In determining which matter(s) to report when engaged to report on KAMs, the auditor evaluates matters that required significant attention during the audit, such as

- Areas of higher assessed risk of material misstatement
- Significant risks
- Areas requiring significant auditor judgment (e.g., accounting estimates with high estimation uncertainty)
- The impact of significant transactions or events

The auditing standards require the items listed above, if any, be communicated with those charged with governance in the audit plan or the audit results. However, only the most significant of those items may be considered KAMs and communicated in the auditor's report.

When the auditor identifies a KAM, the auditor's report includes:

- A description of the matter
- Why the matter was deemed one of the most significant
- How it was addressed during the audit

If the auditor determines there are no KAMs to report, the auditor's report includes a statement to that effect.

The guidance recommends timely and robust communication between the auditor and those charged with governance throughout the audit process about potential KAMs. Further, auditors may find it useful to provide those charged with governance a draft of the auditor's report to facilitate this discussion. This enhanced communication recognizes the important role those charged with governance play in overseeing financial reporting. Timely communication also provides them with the opportunity to understand the basis for the auditor's decisions in relation to KAMs and how KAMs will be described in the audit report. Depending on the matters to be included in the auditor's report, those charged with governance may find it useful to make new or enhanced disclosures.

The determination of KAMs is a matter of significant professional judgment, and therefore the reporting will vary between entities in the same industry as well as from period to period for the same entity.

Some examples of matters that may be considered KAMs include:

- Significant estimates
- Significant unusual transactions
- Revenue
- Goodwill
- Intangibles
- Income taxes
- Contingencies
- Implementation of new IT systems that have a significant impact on financial reporting
- Areas with audit adjustments and/or internal control deficiencies

An item reported as a KAM should not also be included in an emphasis-of-matter or other-matter paragraph.

Other Considerations

Auditor's Responsibility for Other Information

Other information is: Financial or nonfinancial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

Other information may include employment data, management's commentary, financial ratios, etc. When other information is included in an annual report and the annual report is available before the auditor's report is issued, the auditor's report is required to include an Other Information section. The section details management's and the auditor's responsibility regarding the other information included in the annual report and states the auditor's opinion does not cover the other information. The standard defines "annual report" and provides examples of reports not meeting the definition, such as IRS Forms 990 and 5500 and annual statements filed with the National Association of Insurance Commissioners (NAIC).

Special Purpose Frameworks

The standards continue to have specific reporting requirements for entities preparing their financial statements using a special purpose framework, which is a basis of accounting other than Accounting Principles Generally Accepted in the United States (GAAP). The statutory basis of accounting established by the NAIC is considered a special purpose framework. Insurance entities that prepare their financial statements using the statutory basis of accounting and receive a general distribution auditor's report will continue receiving an auditor's report that includes an adverse opinion on the GAAP basis of accounting.

Insurance entities that prepare their financial statements using the statutory basis of accounting and receive a restricted distribution auditor's report will receive an auditor's report that now includes an emphasis-of-matter paragraph stating the financial statements may not be suitable for other purposes.

Illustrative Auditor's Reports

The standards contain exhibits with illustrative auditor's reports. It is expected the PSA, when finalized, will contain exhibits with illustrative auditor's report language as well. The sample auditor's report on comparative GAAP financial statements is included in Exhibit A of this white paper.

Other Audit Process Changes

As a result of the changes to the auditor's report, conforming modifications will be made to the engagement letter, communications with those charged with governance (audit plan and audit results) and management's representation letter. The auditor is now required to communicate significant risks identified by the auditor when planning the audit and any expected modifications to the auditor's report to those charged with governance. Several amendments were made to direct the auditor's attention to the notes to the financial statements throughout the audit process.

Next Steps

Most of the changes described are the responsibility of the auditor to implement. However, management and those charged with governance will need to decide whether or not to engage the auditor to report on KAMs for the upcoming year end. While the PCAOB has made the reporting of Critical Audit Matters (CAMs), which are similar to KAMs, a requirement in their auditing standards for most public filers, it is optional for those entities audited under the AICPA standards. Similarly, many public companies are required to have the auditor opine on the operating effectiveness of their internal controls over financial reporting while such a report is optional to non public entities.

The new guidance states that:

> The purpose of communicating KAMs is to provide greater transparency about the audit that was performed. The inclusion of KAMs in the auditor's report may also provide intended users of the financial statements with a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.

In determining whether or not to engage the auditor to report on KAMs, some of the factors organizations may want to consider are:

- The needs of the intended users of the financial statements
- Other ways the organization already communicates with the intended users of the financial statements about potential KAMs, and matters included in communications from the auditor
- The organization's views about sharing the information communicated in KAMs with all parties with access to the audited financial statements, as the reporting of KAMs

may result in disclosure of information that is not already public or optionally disclosed by the Company
- The benefits to the organization in comparison to the costs, including both additional audit fees as well as likely additional time on the part of management and those charged with governance

Only the largest public companies had CAMs included in their 2019 audit reports. The remaining companies for which CAM reporting is required had CAMs included for the first time in their 2020 audit reports. Additional challenges and considerations may emerge once the impact of this type of reporting is seen in practice.

The decision of whether or not to include KAMs in the auditor's report should be made by management and those charged with governance with the specific needs and concerns of each organization's intended users of the financial statements in mind. An organization's needs may change over time, and so those entities not electing KAM reporting now may add the reporting in a future period.

**Full list of standards:*

- SAS 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*
- SAS 135, *Omnibus Statement on Auditing Standards - 2019*
- SAS 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*
- SAS 138, *Amendments to the Description of the Concept of Materiality*
- SAS 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134*
  - AU-C Section 800, *Special Considerations - Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*
  - AU-C Section 805, *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*
  - AU-C Section 810, *Engagements to Report on Summary Financial Statements*
- SAS 140, *Amendments to AU-C Sections 725, 730, 930, 935 and 940 to Incorporate Auditor Reporting Changes from SAS No. 134 and 137*
  - AU-C Section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
  - AU-C Section 730, *Required Supplementary Information*
  - AU-C Section 930, *Interim Financial Information*
  - AU-C Section 935, *Compliance Audits*
  - AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statement*
- SAS 141, *Amendment to the Effective Dates of SAS Nos. 134-140*

Exhibit A - Illustrative Auditor's Report on Comparative Financial Statements Prepared in Accordance with **Accounting Principles Generally Accepted in the United States of America** when the auditor has not been engaged to report KAMs

Newly required information is in mustard text.

Independent Auditor's Report

[Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for **one year after the date that the financial statements are issued**.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ABC Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Signature of the auditor's firm
City and state where the auditor's report is issued
Date of the auditor's report

Board of Trustees
National Association for Behavioral Healthcare and Affiliates

In planning and performing our audit of the consolidated financial statements of National Association for Behavioral Healthcare and Affiliates (collectively, the "Organization") as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

This communication is intended solely for the information and use of the Board of Trustees, management, and others within the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Johnson Lambert LLP

Vienna, Virginia
March 12, 2021