

BEHAVIOR MANAGEMENT SYSTEMS, INC.

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2016



RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Behavior Management Systems, Inc.
Table of Contents
June 30, 2016

	<u>PAGE</u>
Independent Auditor's Report	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	4 - 5
Statement of Activities and Changes in Net Assets.....	7
Statement of Functional Expenses	8 - 9
Statements of Cash Flows.....	10
Notes to Financial Statements	11 - 23



Independent Auditor's Report

To the Board of Directors
Behavior Management Systems, Inc.
Rapid City, South Dakota

We have audited the accompanying financial statements of Behavior Management Systems, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Behavior Management Systems, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Behavior Management Systems, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Casey Peterson & Associates, LTD". The signature is written in a cursive, flowing style.

Casey Peterson & Associates, LTD

Rapid City, South Dakota

October 25, 2016

FINANCIAL STATEMENTS

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	General	Capital and Program Development	Endowment	Contingency	Total	Memorandum Only 2015 Total
Current Assets						
Cash and Cash Equivalents	\$ 483,308	\$ 104,922	\$ 130	\$ 324,006	\$ 912,366	\$ 847,051
Cash - Funds Held in Trust	109,051	-	-	-	109,051	527,128
Accounts Receivable, Less Allowance for Doubtful Accounts and Contractual Allowance of \$94,979 and \$100,257 at June 30, 2016 and 2015, Respectively	447,824	-	-	-	447,824	616,799
Prepaid Expenses	60,073	-	-	-	60,073	62,728
Total Current Assets	1,100,256	104,922	130	324,006	1,529,314	2,053,706
Property and Equipment						
Buildings	5,376,686	-	-	-	5,376,686	5,376,686
Furniture and Equipment	881,485	-	-	-	881,485	881,485
Vehicles	569,602	-	-	-	569,602	614,804
	6,827,773	-	-	-	6,827,773	6,872,975
Less: Accumulated Depreciation	5,245,557	-	-	-	5,245,557	4,991,516
	1,582,216	-	-	-	1,582,216	1,881,459
Land	330,160	-	-	-	330,160	330,160
	1,912,376	-	-	-	1,912,376	2,211,619
Other Assets						
Capital Credits Receivable	26,256	-	-	-	26,256	25,153
Investments (Note 2)	-	240,900	1,202,250	1,011,685	2,454,835	2,409,223
Total Other Assets	26,256	240,900	1,202,250	1,011,685	2,481,091	2,434,376
TOTAL ASSETS	\$ 3,038,888	\$ 345,822	\$ 1,202,380	\$ 1,335,691	\$ 5,922,781	\$ 6,699,701

The accompanying notes are an integral part of this statement.

	General	Capital and Program Development	Endowment	Contingency	Total	Memorandum Only 2015 Total
Current Liabilities						
Long-term Debt -						
Current Portion (Note 3)	\$ 261,196	\$ -	\$ -	\$ -	\$ 261,196	\$ 248,533
Accounts Payable	57,228	-	-	-	57,228	106,960
Deferred Revenue	49,148	-	-	-	49,148	132,205
Funds Held in Trust	109,051	-	-	-	109,051	527,128
<i>Accrued Expenses:</i>						
Payroll	176,265	-	-	-	176,265	234,279
Vacation	99,761	-	-	-	99,761	110,794
Health Insurance (Note 9)	52,350	-	-	-	52,350	80,513
Payroll Taxes	14,186	-	-	-	14,186	22,173
Other	25,117	-	-	-	25,117	16,290
Total Current Liabilities	844,302	-	-	-	844,302	1,478,875
Long-term Liabilities						
Long-term Debt -- Net of						
Current Portion (Note 3)	321,596	-	-	-	321,596	582,792
Commitments (Note 7)						
Net Assets -- Unrestricted	1,872,990	345,822	1,202,380	1,335,691	4,756,883	4,638,034
Total Net Assets	1,872,990	345,822	1,202,380	1,335,691	4,756,883	4,638,034
TOTAL LIABILITIES AND NET ASSETS	\$ 3,038,888	\$ 345,822	\$ 1,202,380	\$ 1,335,691	\$ 5,922,781	\$ 6,699,701

The accompanying notes are an integral part of this statement.

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BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016 AND 2015

	----- UNRESTRICTED -----				Total	Memorandum Only 2015 Total
	General	Capital and Program Development	Endowment	Contingency		
Operating Revenues						
Client Fees - Title XIX	\$ 3,178,544	\$ -	\$ -	\$ -	\$ 3,178,544	\$ 3,189,492
CMHS Block Grant & State Contract	2,980,530	-	-	-	2,980,530	2,810,761
Client Service Fees	1,244,040	-	-	-	1,244,040	1,389,593
Other Grants (Note 10)	142,892	-	-	-	142,892	665,082
Apartment Rentals (Note 7)	146,998	-	-	-	146,998	152,165
Fundraising Revenue	-	-	85,703	-	85,703	81,023
County Revenues	136,300	-	-	-	136,300	134,800
Total Operating Revenues	7,829,304	-	85,703	-	7,915,007	8,422,916
Operating Expenses						
<i>Program Services:</i>						
Care and Residential Services	1,873,793	-	-	-	1,873,793	1,905,475
Counseling Services	1,922,396	-	-	-	1,922,396	2,224,222
Children's Services	1,261,825	-	-	-	1,261,825	1,383,182
Addiction Services	818,897	-	-	-	818,897	820,674
Impact West	498,947	-	-	-	498,947	481,074
Other Grants	102,602	-	-	-	102,602	101,875
Apartments	135,030	-	-	-	135,030	138,875
<i>Supporting Services:</i>						
Administrative	1,223,155	-	2,752	-	1,225,907	1,399,627
Fundraising	-	-	70,720	-	70,720	69,885
Total Operating Expenses	7,836,645	-	73,472	-	7,910,117	8,524,889
Operating Income (Loss)	(7,341)	-	12,231	-	4,890	(101,973)
Other Revenue (Expense)						
Realized Gain on Investments	-	-	-	-	-	1,021
Miscellaneous Income	258	-	-	-	258	1,029
Interest and Dividend Income	9	14,572	62,223	60,604	137,408	156,491
Contributions	8,955	-	30,584	-	39,539	20,089
Gain on Sale of Property	-	6,200	-	-	6,200	1,150
Total Other Revenue	9,222	20,772	92,807	60,604	183,405	179,780
Excess of Revenues Over (Under) Expenses	1,881	20,772	105,038	60,604	188,295	77,807
Other Changes in Net Assets						
Unrealized Gain (Loss) on Investments	-	(4,355)	(44,360)	(20,731)	(69,446)	(69,220)
Increase (Decrease) in Net Assets	1,881	16,417	60,678	39,873	118,849	8,587
Net Assets - Beginning of Year	1,676,502	258,879	1,206,835	1,495,818	4,638,034	4,629,447
Operating Transfers In (Out)	194,607	70,526	(65,133)	(200,000)	-	-
Net Assets - End of Year	\$ 1,872,990	\$ 345,822	\$ 1,202,380	\$ 1,335,691	\$ 4,756,883	\$ 4,638,034

The accompanying notes are an integral part of this statement.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

PROGRAM SERVICES

	Care and Residential Services	Counseling Services	Children's Services	Addiction Services	Impact West	Other Grants	Apartments
Salaries	\$ 1,341,147	\$ 1,458,352	\$ 925,974	\$ 499,975	\$ 380,420	\$ 84,446	\$ 13,780
Fringe Benefits	262,620	256,064	163,551	97,755	60,347	12,685	3,237
Depreciation	40,818	31,178	45,029	82,631	6,783	-	26,731
Psychiatric and Other							
Professional Fees	9,602	53,807	8,024	10,713	939	-	14,444
Supplies	39,056	14,076	6,548	41,938	3,667	4	25
Travel and Transportation	54,234	2,863	39,435	11,245	22,740	1,721	27
Utilities	35,307	26,573	18,111	23,544	7,470	-	29,919
Interest	5,894	4,142	6,976	13,977	1,231	-	1,810
Equipment	7,576	5,287	3,293	4,921	1,392	1	3,452
Maintenance and Other	31,455	20,247	19,214	11,295	2,530	2,800	17,315
Telephone	20,882	9,207	12,863	2,533	5,993	945	510
Insurance and Taxes	11,671	8,242	5,621	6,850	2,986	-	15,931
Buildings and Grounds	12,316	3,522	2,068	9,374	2,449	-	7,849
Miscellaneous	1,215	35	23	2,174	-	-	-
Bad Debt	-	27,151	295	(28)	-	-	-
Rent - Facilities	-	1,650	4,800	-	-	-	-
Total Expenses	\$ 1,873,793	\$ 1,922,396	\$ 1,261,825	\$ 818,897	\$ 498,947	\$ 102,602	\$ 135,030

The accompanying notes are an integral part of this statements.

SUPPORTING SERVICES

			Memorandum Only 2015 Total	
<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>		
\$ 741,793	\$ 13,396	\$ 5,459,283	\$ 5,682,669	Salaries
148,205	3,719	1,008,183	1,238,242	Fringe Benefits
80,547	-	313,717	312,461	Depreciation Psychiatric and Other
174,297	22,219	294,045	445,893	Professional Fees
17,747	20,658	143,719	159,087	Supplies
6,338	37	138,640	130,999	Travel and Transportation
17,200	-	158,124	162,937	Utilities
1,715	-	35,745	47,792	Interest
7,606	30	33,558	40,531	Equipment
6,541	-	111,397	69,261	Maintenance and Other
7,812	-	60,745	65,585	Telephone
5,225	-	56,526	56,188	Insurance and Taxes
1,484	211	39,273	61,817	Buildings and Grounds
-	9,300	12,747	16,118	Miscellaneous
-	-	27,418	22,584	Bad Debt
9,397	1,150	16,997	12,725	Rent - Facilities
\$ 1,225,907	\$ 70,720	\$ 7,910,117	\$ 8,524,889	Total Expenses

The accompanying notes are an integral part of this statements.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Increase in Net Assets	\$ 118,849	\$ 8,587
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:</i>		
Depreciation	313,717	312,461
Gain on Sale of Property and Equipment	(6,200)	(1,150)
Unrealized (Gain) Loss on Investments	69,446	69,220
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Accounts Receivable	168,975	141,280
Prepaid Expenses	2,655	(17,310)
Accounts Payable	(49,732)	(8,242)
Accrued Expenses	(96,370)	(3,688)
Deferred Revenue	(83,057)	78,336
Net Cash Flows Provided by Operating Activities	438,283	579,494
Cash Flows From Investing Activities		
Capital Credits Receivable	(1,103)	(866)
Net (Purchase) Sale of Investments	(115,058)	(204,365)
Purchases of Property and Equipment	(14,474)	(40,306)
Proceeds from Sale of Property and Equipment	6,200	1,150
Net Cash Flows Used in Investing Activities	(124,435)	(244,387)
Cash Flows Used in Financing Activities		
Repayment of Long-Term Debt	(248,533)	(236,483)
Net Increase (Decrease) in Cash and Cash Equivalents	65,315	98,624
Cash and Cash Equivalents -- Beginning of Year	847,051	748,427
Cash and Cash Equivalents -- End of Year	\$ 912,366	\$ 847,051
Supplemental Disclosures of Cash Flow Information		
Cash Paid During the Year for Interest	\$ 35,778	\$ 47,828

The accompanying notes are an integral part of these statements.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Behavior Management Systems, Inc. (the Organization), provides behavioral health care services in western South Dakota with its main office in Rapid City. The majority of the Organization's revenue is received from the State of South Dakota.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

Accounting

The Organization uses the accrual method of accounting. The Organization segregates its operations into the following funds based on designated purposes.

General Fund

This fund contains all assets, liabilities, and related revenue and expense transactions arising from the treatment of clients and other operating activities.

Capital and Program Development Fund

This fund contains assets designated by the Board of Directors for property and equipment acquisitions and program developments.

Unrestricted Board Designated Endowment Fund

This fund contains assets designated by the Board of Directors to provide income for certain programs. The specific use of the income will be decided on an annual basis, while the Board's intention is to leave a significant portion of the endowment fund's principal permanently intact.

Contingency Fund

This fund contains assets designated by the Board of Directors to be used in conjunction with the General Fund to have up to 90 days operating expenses available in the event of unanticipated cash flow problems.

Financial Statement Presentation and Net Asset Classification

The Organization presents its financial statements in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 958, "Not-for-Profit Entities Presentation of Financial Statements."

The State of South Dakota adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 01, 2008. UPMIFA establishes law for the management and investment of donor-restricted endowment funds. The Organization adopted UPMIFA for the year ending June 30, 2009. The Organization has determined that no donor restricted endowment funds exist as of June 30, 2016 or at the time of the adoption; however, in the event such funds are received in the future, the Organization has interpreted the relevant law to require preservation of the fair value of the original gift absent donor restrictions to the contrary.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation and Net Asset Classification (Continued)

The Organization has adopted investment and spending policies of endowment assets that seeks to provide income for programs. The specific use of the income will be decided on an annual basis by the Board of Directors, while the Board's intention is to leave a significant portion of the principal intact. Investment of the fund will be 75% equities and 25% fixed income or cash equivalents. The Board of Directors will review the fund annually. Any appropriations from the fund will be approved by the Board of Directors.

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no temporarily or permanently restricted net assets at either June 30, 2016 or 2015.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents do not include "Cash - Funds Held in Trust." The Organization maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Funds Held in Trust

Funds held in trust on behalf of clients are held in separate bank accounts and are offset by a liability due to the specified clients. Funds are managed in accordance with client instructions.

Accounts Receivable

Accounts receivable consist of amounts due from clients and third-party payors and are recorded at the amount management expects to collect based on the Organization's assessment of the client's ability to pay. A significant portion of the accounts receivable balance is due from the State of South Dakota. Accounts receivable are recorded at the time services are rendered. Payment from third-party payors is generally received within 60 days of the billing date. Amounts due from clients are considered past due 90 days after services are provided. Interest is not charged on past due balances. Management has estimated an allowance for uncollectible accounts based on past payment collection history and current economic conditions. Allowances at June 30, 2016 and 2015 were **\$94,979** and \$100,257, respectively. Client receivables will be charged off as bad debt expense when all reasonable collection efforts have been exhausted. Past due client receivables total **\$42,695** and \$49,206 at June 30, 2016 and 2015, respectively.

Property and Equipment

Property and equipment purchases of \$5,000 or more are capitalized at cost and depreciated using the straight-line method over the following estimated useful lives:

Buildings	20-40 Years
Furniture and Equipment	5-10 Years
Vehicles	4 Years

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the Statement of Financial Position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses are excluded from revenues in excess of expenses unless the investments are trading securities.

Revenue Recognition

Client service fees, including Title XIX, CMHS Block Grant, and State Contract revenues, are recorded at rates established primarily by the State of South Dakota in the period the services are provided. Revenues from other contracts and grants are recognized in accordance with the terms of the underlying agreements. Any cash received in excess of revenue recorded is reflected as deferred revenue in the accompanying Statements of Financial Position.

Excess of Revenues Over (Under) Expenses

The Statement of Activities and Changes in Net Assets includes the excess of revenues over (under) expenses. Changes in unrestricted net assets which are excluded from the excess of revenues over (under) expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods or services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Contributions

The Organization accounts for contributions in accordance with FASB ASC No. 958, "Not-For-Profit Revenue Recognition." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Temporary restrictions that originate and expire in the same fiscal year are reported within the unrestricted net assets classification.

Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

The Organization's policy is to expense advertising costs as they are incurred. Advertising costs for the years ended June 30, 2016 and 2015 were **\$50,563** and \$45,172, respectively.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

(1) Nature of Operations and Summary of Significant Accounting Policies (Concluded)

Balances for the Year Ended June 30, 2015

The Statement of Financial Position, Statement of Activities and Changes in Net Assets, and Statement of Functional Expenses for the year ended June 30, 2015 are captioned "Memorandum Only." Such information is presented only to facilitate financial analysis. This data does not present these statements in the amount of detail required by accounting principles generally accepted in the United States of America. Complete June 30, 2015 Statement of Financial Position, Statement of Activities and Changes in Net Assets, and Statement of Functional Expenses was included with the prior year report, but is not presented here because of space limitations and to avoid cumbersome and confusing formats.

Federal Income Tax

The Organization has implemented the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC 740, "Income Taxes." Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the taxing authorities.

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the IRS not to be a "private foundation" within the meaning of Section 509(a) of the Code.

The Organization is not liable for income taxes if it operates within the confines of its exempt status. However, the Organization may be responsible for taxes on unrelated business activities. In the event of an examination of the income tax returns, the tax liability of the Organization could be changed if taxing authorities make adjustments to the tax exempt purpose of the Organization or if taxing authorities determine activities are subject to unrelated business income.

As of June 30, 2016, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization's income tax filings are subject to audit by various taxing authorities. The Organization is no longer subject to federal and state income tax examinations by taxing authorities for years before 2012. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law and new authoritative rulings. The Organization believes their estimates are appropriate based on current facts and circumstances. Interest and penalties assessed by income taxing authorities, if any, are included in interest expense.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

(2) Investments

The Organization accounts for investments in accordance with FASB ASC No. 820, "Fair Value Measurements." FASB ASC No. 820 established a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The Organization accounts for investments at fair value. In accordance with FASB ASC No. 820, the Organization has categorized its investments, based on the priority of the inputs to the valuation technique, into three broad levels of hierarchy. During the year ended June 30, 2010, the Organization prospectively adopted the provisions of ASU 2010-06, "Improving Disclosures about Fair Value Measurements," which amends ASC No. 820 by requiring further desegregation of investments valued at net asset value based on nature and risk.

Level I - Investments are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers and brokers in active over-the-counter markets.

Level II - Investments are valued using inputs such as quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Investments that are included in this level included corporate bonds and loans, and less liquid and restricted equities.

Level III - Investments are valued using pricing inputs which are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2016 or June 30, 2015.

Common stocks, corporate bonds and U.S. government securities - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds -Valued at the net asset value (NAV) of shares held at year end.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

(2) Investments (Continued)

The following table sets forth carrying amounts and estimated fair values for financial instruments as of June 30, 2016:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Money Market Funds	\$ 99,725	\$ -	\$ -	\$ 99,725
Federal Home Loan Mortgage (Freddie Mac) (Maturing in 2034)	509	-	-	509
Government National Mortgage (Ginnie Mae) (Maturing in 2028)	2,793	-	-	2,793
Moody's AAA Federal Mortgage Assn (Maturing in 2032)	1,412	-	-	1,412
US Treasury Inflation Protected Securities (Maturing in 2018)	11,635	-	-	11,635
Bond Funds	70,203	-	-	70,203
Mutual Funds - Large Cap Equity Income	175,559	-	-	175,559
Mutual Funds - Large Cap Balanced	393,035	-	-	393,035
Mutual Funds - Large Cap Growth	567,694	-	-	567,694
Mutual Funds- Large Cap Growth and Income	1,132,270	-	-	1,132,270
Totals:	\$ 2,454,835	\$ -	\$ -	\$ 2,454,835

Investment income and gains and losses on investments and cash equivalents are as follows:

Other Income	
Interest, Dividends and Capital Gains	\$ 137,408
Realized Gains on Investments	-
	<u>\$ 137,408</u>
Other Changes In Unrestricted Net Assets	
Unrealized (Losses) on Investments	<u>\$ (69,446)</u>

The following table sets forth investments in an unrealized gain (loss) position at June 30, 2016 based on the Organization's cost basis in each asset:

	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>
Federal Home Loan Mortgage (Freddie Mac)	\$ -	\$ -	\$ 509	\$ 70
Government National Mortgage (Ginnie Mae)	-	-	2,793	183
Moody's AAA Federal Mortgage Assn	-	-	1,412	174
US Treasury Inflation Protected Securities	-	-	11,635	1,717
Bond Funds	70,203	(7,197)	-	-
Mutual Funds - Large Cap Equity Income	-	-	175,559	38,336
Mutual Funds - Large Cap Balanced	-	-	393,035	103,612
Mutual Funds - Large Cap Growth	-	-	567,694	162,792
Mutual Funds- Large Cap Growth and Income	-	-	1,132,270	333,214
Totals:	\$ 70,203	\$ (7,197)	\$ 2,284,907	\$ 640,098

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

(2) Investments (Continued)

The following sets forth the duration of the investments in an unrealized loss position at June 30, 2016:

	<u>Greater Than 12 Months</u>		<u>Less Than 12 Months</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Bond Funds	\$ 70,203	\$ (7,197)	\$ -	\$ -

The unrealized losses on investments of the financial instruments were primarily a result of market declines consistent with the cyclical nature of the financial markets. The Organization has a diversified portfolio of investments. The Organization investments in an unrealized loss position consisted of investments in various market sectors. Based on the evaluation and the Organization's ability and intent to hold those investments for a reasonable period to time sufficient for a forecasted recovery of fair value, the Organization does not consider those investments to be other than temporarily impaired at June 30, 2016.

The following table sets forth carrying amounts and estimated fair values for financial instruments as of June 30, 2015:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Money Market Funds	\$ 120,729	\$ -	\$ -	\$ 120,729
Federal Home Loan Mortgage (Freddie Mac) (Maturing in 2034)	633	-	-	633
Government National Mortgage (Ginnie Mae) (Maturing in 2028)	3,389	-	-	3,389
Moody's AAA Federal Mortgage Assn (Maturing in 2032)	1,581	-	-	1,581
US Treasury Inflation Protected Securities (Maturing in 2018)	11,635	-	-	11,635
Bond Funds	70,571	-	-	70,571
Mutual Funds - Large Cap Equity Income	166,532	-	-	166,532
Mutual Funds - Large Cap Balanced	369,769	-	-	369,769
Mutual Funds - Large Cap Growth	571,506	-	-	571,506
Mutual Funds- Large Cap Growth and Income	1,092,878	-	-	1,092,878
Totals:	\$ 2,409,223	\$ -	\$ -	\$ 2,409,223

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

(2) Investments (Concluded)

Investment income and gains and losses on investments and cash equivalents are as follows:

Other Income	
Interest, Dividends and Capital Gains	\$ 156,491
Realized Gains on Investments	1,021
	<u>\$ 157,512</u>
Unrealized (Losses) on Investments	<u>\$ (69,220)</u>

The following table sets forth investments in an unrealized gain (loss) position at June 30, 2015 based on the Organization's cost basis in each asset:

	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>
Federal Home Loan Mortgage (Freddie Mac)	\$ -	\$ -	\$ 633	\$ 80
Government National Mortgage (Ginnie Mae)	-	-	3,389	251
Moody's AAA Federal Mortgage Assn	-	-	1,581	188
US Treasury Inflation Protected Securities	-	-	11,635	1,717
Bond Funds	70,571	(4,501)	-	-
Mutual Funds - Large Cap Equity Income	-	-	166,532	37,544
Mutual Funds - Large Cap Balanced	-	-	369,769	101,690
Mutual Funds - Large Cap Growth	-	-	571,506	207,599
Mutual Funds- Large Cap Growth and Income	-	-	1,092,878	357,779
Totals:	<u>\$ 70,571</u>	<u>\$ (4,501)</u>	<u>\$ 2,217,923</u>	<u>\$ 706,848</u>

The following table sets forth the duration of the investments in an unrealized loss position at June 30, 2015:

	<u>Greater Than 12 Months</u>		<u>Less Than 12 Months</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Bond Funds	\$ -	\$ -	\$ 70,571	\$ (4,501)

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes will occur in the near-term and such changes could materially affect the investment balances and the amounts reported in the Statement of Financial Position.

BEHAVIOR MANAGEMENT SYSTEMS, INC.**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015****(3) Long-term Debt**

Long-term debt consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Tax-exempt bond. Payable to bank in monthly installments of \$23,693, including interest at 4.98% through August 2018, secured by buildings and land at 350 Elk Street.	\$ 582,792	\$ 831,325
Less: Current Portion	<u>261,196</u>	248,533
	<u>\$ 321,596</u>	<u>\$ 582,792</u>

Principal maturities of long-term debt are as follows for the five years ending June 30:

2017	\$ 261,196
2018	274,504
2019	<u>47,092</u>
	<u>\$ 582,792</u>

Additionally, the Organization has available a \$250,000 line-of-credit. Borrowings under the line-of-credit accrue interest at the greater of a floating rate equal to the bank's index (3.50 percent at June 30, 2016) plus 0.60 percent or the floor rate of 5.00 percent, and are due in full on March 31, 2017. Management anticipates renewing this line of credit annually in the ordinary course of business. There were no borrowings on this line-of-credit at June 30, 2016 or 2015.

(4) Endowment Fund

The following table summarizes the Organization's endowment by net asset class and the activity in such net asset classification as of and for the year ended June 30, 2016.

Endowment by Net Asset Class

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Donor Designated Endowment	\$ -	\$ -	\$ -	\$ -
Board Designated Endowment	1,202,380	-	-	1,202,380
Total Endowment Funds	<u>\$ 1,202,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,202,380</u>

BEHAVIOR MANAGEMENT SYSTEMS, INC.**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015****(4) Endowment Fund****Changes in Endowment Net Assets**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Endowment Net Assets, Beginning of Year	\$ 1,206,835	\$ -	\$ -	\$ 1,206,835
Interest and Dividends Net of Investment Expense	62,223	-	-	62,223
Contributions	116,287	-	-	116,287
Loss on Investments	(44,360)	-	-	(44,360)
Amounts Appropriated for Expenditures	(73,472)	-	-	(73,472)
Transfer to Capital Outlay Fund	(85,000)	-	-	(85,000)
Transfer from General Fund	19,867	-	-	19,867
Change in Endowment Net Assets	(4,455)	-	-	(4,455)
Endowment Net Assets, End of Year	\$ 1,202,380	\$ -	\$ -	\$ 1,202,380

The following table summarizes the Organization's endowment by net asset class and the activity in such net asset classification as of and for the year ended June 30, 2015.

Endowment by Net Asset Class

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Donor Designated Endowment	\$ -	\$ -	\$ -	\$ -
Board Designated Endowment	1,206,835	-	-	1,206,835
Total Endowment Funds	\$ 1,206,835	\$ -	\$ -	\$ 1,206,835

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

(4) Endowment Fund (Concluded)

Changes in Endowment Net Assets

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Endowment Net Assets, Beginning of Year	\$ 1,117,258	\$ -	\$ -	\$ 1,117,258
Interest and Dividends Net of Investment Expense	69,206	-	-	69,206
Net Appreciation	(27,347)	-	-	(27,347)
Contributions	93,832	-	-	93,832
Gain on Investments	1,021	-	-	1,021
Amounts Appropriated for Expenditures	(73,913)	-	-	(73,913)
Transfer from General Fund	26,778	-	-	26,778
Change in Endowment Net Assets	89,577	-	-	89,577
Endowment Net Assets, End of Year	\$ 1,206,835	\$ -	\$ -	\$ 1,206,835

(5) Concentrations of Credit Risk and Revenue Sources

The Organization grants credit without collateral to its clients, most of who are insured under third-party payor agreements. In addition, some clients are eligible to receive services under the CMHS Block Grant and State Contract Funds, a contract agreement with the South Dakota Department of Social Services, Division of Community Behavioral Health. The mix of receivables from third-party payors and clients as of June 30 was as follows:

	<u>2016</u>	<u>2015</u>
South Dakota Medicaid (Title XIX)	23%	27%
South Dakota Division of Behavioral Health	39%	30%
Private Pay and Private Insurance	33%	29%
Other	5%	14%

The mix of revenues arising from services provided for the years ended June 30 was as follows:

	<u>2016</u>	<u>2015</u>
South Dakota Medicaid (Title XIX)	40%	38%
South Dakota Division of Behavioral Health	38%	33%
Private Pay and Private Insurance	16%	17%
Other	6%	12%

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

(6) Retirement Plan

The Organization belongs to the South Dakota Association of Community Based Human Services Retirement Plan 401(k) retirement plan covering substantially all employees desiring to participate. The SDACBS Retirement Plan is a multi-employer 401(k) retirement plan. Employees must meet certain eligibility requirements. For twelve months in this fiscal year, the Organization matched a certain percentage of employee contributions. Currently, the Organization is at a discretionary match. The Organization's contributions to the plan (net of employee forfeitures) were **\$54,064** and \$52,137 during the years ended June 30, 2016 and 2015, respectively.

(7) Commitments - Leases

The Organization leases space on a yearly basis which requires monthly payments of \$400. Minimum future lease and rent payments for the year ended June 30, 2016 are \$4,800.

The Organization is the lessor of apartments under lease agreements not exceeding one year. Total rental income received under these apartment leases during the years ended June 30, 2016 and 2015, was **\$146,998** and \$152,165, respectively.

(8) Joint Program Agreement

The Organization operates and manages a 24 hours Crisis Care Center, in collaboration with the Black Hills Mental Health and Substance Abuse collaborative. Various agencies and grantors contribute funding for the program to cover operating expenses, with remaining costs paid for out of fee for service agreements.

(9) Contingencies

Self-Insured Health Insurance

During the years ended June 30, 2016 and 2015, the Organization's employees were covered by a self-insured health insurance plan. The Organization pays premiums based on tier of coverage (family, single, etc.) selected. After deductibles of \$1,500 per individual or \$3,000 per family are met, the plan has 80% reimbursement rate. A third party administrator, acting on behalf of the Organization, pays claims. The administrative contract between the Organization and the plan administrator is renewable annually, and administrative fees and stop-loss premiums are included in the contractual provision. Stop-loss coverage was in effect for individual claims exceeding \$35,000. The Organization had a liability for incurred but not reported claims of **\$52,350** and \$80,513 as of June 30, 2016 and 2015, respectively.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

(10) Commitments

Grant Commitment

The Organization received in December 2013, \$500,000 for the 2013 Bush Prize for Community Innovation grant. The grant funds are unrestricted and were to be spent by December 31, 2015 to advance the Organization's charitable mission. The Organization has expended **\$191,731** and \$91,636 as of June 30, 2016 and 2015, respectively, of the grant funds. The Organization met the grant obligation.

(11) Subsequent Events

Subsequent events have been evaluation through the date of the independent auditor's report, which is the date the financial statements were available to be issued.