

BEHAVIOR MANAGEMENT SYSTEMS, INC.

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2017

CASEY  **PETERSON**
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Behavior Management Systems, Inc.
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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. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota

October 24, 2017

FINANCIAL STATEMENTS

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	General	Capital and Program Development	Endowment	Contingency	Total	Memorandum Only 2016 Total
Current Assets						
Cash and Cash Equivalents	\$ 587,898	\$ 23,678	\$ 100	\$ 324,160	\$ 935,836	\$ 912,366
Cash - Funds Held in Trust	190,091	-	-	-	190,091	109,051
Accounts Receivable, Less Allowance for Doubtful Accounts and Contractual Allowance of \$131,794 and \$94,979 at June 30, 2017 and 2016, Respectively	510,432	-	-	-	510,432	447,824
Prepaid Expenses	62,635	-	-	-	62,635	60,073
Total Current Assets	1,351,056	23,678	100	324,160	1,698,994	1,529,314
Property and Equipment						
Buildings	5,405,496	-	-	-	5,405,496	5,376,686
Furniture and Equipment	852,785	-	-	-	852,785	881,485
Vehicles	579,032	-	-	-	579,032	569,602
	6,837,313	-	-	-	6,837,313	6,827,773
Less: Accumulated Depreciation	5,386,359	-	-	-	5,386,359	5,245,557
	1,450,954	-	-	-	1,450,954	1,582,216
Land	330,160	-	-	-	330,160	330,160
	1,781,114	-	-	-	1,781,114	1,912,376
Other Assets						
Capital Credits Receivable	28,151	-	-	-	28,151	26,256
Investments (Note 2)	-	276,682	1,308,176	1,168,519	2,753,377	2,454,835
Total Other Assets	28,151	276,682	1,308,176	1,168,519	2,781,528	2,481,091
TOTAL ASSETS	\$ 3,160,321	\$ 300,360	\$ 1,308,276	\$ 1,492,679	\$ 6,261,636	\$ 5,922,781

The accompanying notes are an integral part of this statement.

	General	Capital and Program Development	Endowment	Contingency	Total	Memorandum Only 2016 Total
Current Liabilities						
Long-term Debt -						
Current Portion (Note 3)	\$ 274,504	\$ -	\$ -	\$ -	\$ 274,504	\$ 261,196
Accounts Payable	70,317	-	-	-	70,317	57,228
Deferred Revenue	20,467	-	-	-	20,467	49,148
Funds Held in Trust	190,091	-	-	-	190,091	109,051
<i>Accrued Expenses:</i>						
Payroll	239,738	-	-	-	239,738	176,265
Vacation (Note 8)	-	-	-	-	-	99,761
Health Insurance (Note 9)	63,076	-	-	-	63,076	52,350
Payroll Taxes	18,340	-	-	-	18,340	14,186
Other	31,680	-	-	-	31,680	25,117
Total Current Liabilities	908,213	-	-	-	908,213	844,302
Long-term Liabilities						
Long-term Debt -- Net of						
Current Portion (Note 3)	47,092	-	-	-	47,092	321,596
Commitments (Note 7)						
Net Assets -- Unrestricted	2,205,016	300,360	1,308,276	1,492,679	5,306,331	4,756,883
Total Net Assets	2,205,016	300,360	1,308,276	1,492,679	5,306,331	4,756,883
TOTAL LIABILITIES AND NET ASSETS	\$ 3,160,321	\$ 300,360	\$ 1,308,276	\$ 1,492,679	\$ 6,261,636	\$ 5,922,781

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, 2017 AND 2016

	----- UNRESTRICTED -----				Total	Memorandum Only 2016 Total
	General	Capital and Program Development	Endowment	Contingency		
Operating Revenues						
Client Fees - Title XIX	\$ 3,162,814	\$ -	\$ -	\$ -	\$ 3,162,814	\$ 3,178,544
CMHS Block Grant & State Contract	3,458,651	-	-	-	3,458,651	2,980,530
Client Service Fees	1,028,658	-	-	-	1,028,658	1,244,040
Other Grants	644,366	-	-	-	644,366	142,892
Apartment Rentals (Note 7)	151,543	-	-	-	151,543	146,998
Fundraising Revenue	-	-	22,137	-	22,137	85,703
County Revenues	137,800	-	-	-	137,800	136,300
Total Operating Revenues	8,583,832	-	22,137	-	8,605,969	7,915,007
Operating Expenses						
<i>Program Services:</i>						
Care and Residential Services	2,089,658	-	-	-	2,089,658	1,873,793
Counseling Services	2,016,032	-	-	-	2,016,032	1,922,396
Children's Services	1,233,370	-	-	-	1,233,370	1,261,825
Addiction Services	958,844	-	-	-	958,844	818,897
Impact West	512,297	-	-	-	512,297	498,947
Other Grants	104,227	-	-	-	104,227	102,602
Apartments	127,832	-	-	-	127,832	135,030
<i>Supporting Services:</i>						
Administrative	1,388,757	-	2,390	-	1,391,147	1,225,907
Fundraising	-	-	37,188	-	37,188	70,720
Total Operating Expenses	8,431,017	-	39,578	-	8,470,595	7,910,117
Operating Income (Loss)	152,815	-	(17,441)	-	135,374	4,890
Other Revenue (Expense)						
Miscellaneous Income	121	-	-	-	121	258
Interest and Dividend Income	9	15,996	53,582	68,057	137,644	137,408
Contributions	1,000	-	37,042	-	38,042	39,539
Gain on Sale of Property	-	4,250	-	-	4,250	6,200
Total Other Revenue	1,130	20,246	90,624	68,057	180,057	183,405
Excess of Revenues Over (Under) Expenses	153,945	20,246	73,183	68,057	315,431	188,295
Other Changes in Net Assets						
Unrealized Gain (Loss) on Investments	-	19,814	125,272	88,931	234,017	(69,446)
Increase (Decrease) in Net Assets	153,945	40,060	198,455	156,988	549,448	118,849
Net Assets - Beginning of Year	1,872,990	345,822	1,202,380	1,335,691	4,756,883	4,638,034
Operating Transfers In (Out)	178,081	(85,522)	(92,559)	-	-	-
Net Assets - End of Year	\$ 2,205,016	\$ 300,360	\$ 1,308,276	\$ 1,492,679	\$ 5,306,331	\$ 4,756,883

The accompanying notes are an integral part of this statement.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

PROGRAM SERVICES

	Care and Residential Services	Counseling Services	Children's Services	Addiction Services	Impact West	Other Grants	Apartments
Salaries	\$ 1,447,513	\$ 1,537,840	\$ 869,205	\$ 588,753	\$ 385,814	\$ 76,478	\$ 7,526
Fringe Benefits	323,554	284,732	168,468	112,877	63,238	14,999	2,923
Depreciation	44,862	31,211	46,504	87,263	11,612	-	23,472
Psychiatric and Other							
Professional Fees	10,985	25,211	16,616	10,086	4,411	74	14,494
Supplies	42,329	14,945	6,838	55,371	3,690	42	-
Travel and Transportation	53,244	2,403	45,900	10,349	18,237	2,339	-
Utilities	39,158	29,781	18,927	25,895	8,347	-	30,072
Interest	3,759	2,674	4,493	9,025	795	-	1,169
Equipment	9,205	9,986	5,234	5,765	1,700	1	4,264
Maintenance and Other	65,672	23,042	22,527	18,865	2,265	9,362	14,614
Telephone	23,385	10,961	14,271	2,720	6,593	932	516
Insurance and Taxes	10,622	7,373	4,871	6,032	2,789	-	15,557
Buildings and Grounds	14,269	4,685	2,506	15,613	2,806	-	13,225
Miscellaneous	1,101	-	12	10,253	-	-	-
Bad Debt	-	27,247	2,198	(23)	-	-	-
Rent - Facilities	-	3,941	4,800	-	-	-	-
Total Expenses	\$ 2,089,658	\$ 2,016,032	\$ 1,233,370	\$ 958,844	\$ 512,297	\$ 104,227	\$ 127,832

The accompanying notes are an integral part of this statements.

SUPPORTING SERVICES

<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Memorandum Only 2016 Total</u>	
\$ 782,342	\$ 11,592	\$ 5,707,063	\$ 5,459,283	Salaries
179,736	3,188	1,153,715	1,008,183	Fringe Benefits
81,858	-	326,782	313,717	Depreciation
				Psychiatric and Other
257,897	21,336	361,110	294,045	Professional Fees
17,421	1,066	141,702	143,719	Supplies
3,711	-	136,183	138,640	Travel and Transportation
19,710	-	171,890	158,124	Utilities
1,165	-	23,080	35,745	Interest
12,484	6	48,645	33,558	Equipment
9,405	-	165,752	111,397	Maintenance and Other
10,037	-	69,415	60,745	Telephone
4,885	-	52,129	56,526	Insurance and Taxes
6,836	-	59,940	39,273	Buildings and Grounds
-	-	11,366	12,747	Miscellaneous
-	-	29,422	27,418	Bad Debt
3,660	-	12,401	16,997	Rent - Facilities
\$ 1,391,147	\$ 37,188	\$ 8,470,595	\$ 7,910,117	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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Increase in Net Assets	\$ 549,448	\$ 118,849
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:</i>		
Depreciation	326,782	313,717
Gain on Sale of Property and Equipment	(4,250)	(6,200)
Unrealized (Gain) Loss on Investments	(234,017)	69,446
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Accounts Receivable	(62,608)	168,975
Prepaid Expenses	(2,562)	2,655
Accounts Payable	13,089	(49,732)
Accrued Expenses	(14,845)	(96,370)
Deferred Revenue	(28,681)	(83,057)
Net Cash Flows Provided by Operating Activities	542,356	438,283
Cash Flows From Investing Activities		
Capital Credits Receivable	(1,895)	(1,103)
Net (Purchase) Sale of Investments	(64,525)	(115,058)
Purchases of Property and Equipment	(195,520)	(14,474)
Proceeds from Sale of Property and Equipment	4,250	6,200
Net Cash Flows Used in Investing Activities	(257,690)	(124,435)
Cash Flows Used in Financing Activities		
Repayment of Long-Term Debt	(261,196)	(248,533)
Net Increase (Decrease) in Cash and Cash Equivalents	23,470	65,315
Cash and Cash Equivalents -- Beginning of Year	912,366	847,051
Cash and Cash Equivalents -- End of Year	\$ 935,836	\$ 912,366
Supplemental Disclosures of Cash Flow Information		
Cash Paid During the Year for Interest	\$ 23,115	\$ 35,778

The accompanying notes are an integral part of these statements.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

(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, 2017 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, 2017 AND 2016

(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, 2017 or 2016.

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, 2017 and 2016 were **\$131,794** and \$94,979, respectively. Client receivables will be charged off as bad debt expense when all reasonable collection efforts have been exhausted. Past due client receivables total **\$56,149** and \$42,695 at June 30, 2017 and 2016, 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, 2017 AND 2016

(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, 2017 and 2016 were **\$68,012** and \$50,563, respectively.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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

Balances for the Year Ended June 30, 2016

The Statement of Financial Position, Statement of Activities and Changes in Net Assets, and Statement of Functional Expenses for the year ended June 30, 2016 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, 2016 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, 2017, 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 2013. 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, 2017 AND 2016

(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, 2017 or June 30, 2016.

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, 2017 AND 2016**

(2) Investments (Continued)

The following table sets forth carrying amounts and estimated fair values for financial instruments as of June 30, 2017:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Money Market Funds	\$ 28,392	\$ -	\$ -	\$ 28,392
Federal Home Loan Mortgage (Freddie Mac) (Maturing in 2034)	388	-	-	388
Government National Mortgage (Ginnie Mae) (Maturing in 2028)	2,050	-	-	2,050
Moody's AAA Federal Mortgage Assn (Maturing in 2032)	1,058	-	-	1,058
US Treasury Inflation Protected Securities (Maturing in 2018)	11,518	-	-	11,518
Bond Funds	75,381	-	-	75,381
Mutual Funds - Large Cap Equity Income	192,316	-	-	192,316
Mutual Funds - Large Cap Balanced	433,967	-	-	433,967
Mutual Funds - Large Cap Growth	689,037	-	-	689,037
Mutual Funds- Large Cap Growth and Income	1,319,270	-	-	1,319,270
Totals:	\$ 2,753,377	\$ -	\$ -	\$ 2,753,377

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

Other Income	
Interest, Dividends and Capital Gains	\$ 137,644
Realized Gains on Investments	-
	<u>\$ 137,644</u>
Other Changes In Unrestricted Net Assets	
Unrealized Gains on Investments	<u>\$ 234,017</u>

The following table sets forth investments in an unrealized gain (loss) position at June 30, 2017 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)	\$ -	\$ -	\$ 388	\$ 48
Government National Mortgage (Ginnie Mae)	-	-	2,050	143
Moody's AAA Federal Mortgage Assn	-	-	1,058	118
US Treasury Inflation Protected Securities	-	-	11,518	1,600
Bond Funds	75,381	(4,453)	-	-
Mutual Funds - Large Cap Equity Income	-	-	192,316	49,488
Mutual Funds - Large Cap Balanced	-	-	433,967	128,423
Mutual Funds - Large Cap Growth	-	-	689,037	253,073
Mutual Funds- Large Cap Growth and Income	-	-	1,319,270	438,478
Totals:	\$ 75,381	\$ (4,453)	\$ 2,649,604	\$ 871,371

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

(2) Investments (Continued)

The following sets forth the duration of the investments in an unrealized loss position at June 30, 2017:

	<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	\$ 75,381	\$ (4,453)	\$ -	\$ -

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, 2017.

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

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

(2) Investments (Concluded)

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:	<u>\$ 70,203</u>	<u>\$ (7,197)</u>	<u>\$ 2,284,907</u>	<u>\$ 640,098</u>

The following table 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)	\$ -	\$ -

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, 2017 AND 2016**

(3) Long-term Debt

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

	<u>2017</u>	<u>2016</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.	\$ 321,596	\$ 582,792
Less: Current Portion	<u>274,504</u>	261,196
	<u>\$ 47,092</u>	<u>\$ 321,596</u>

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

2018	\$ 274,504
2019	<u>47,092</u>
	<u>\$ 321,596</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 (4.25 percent at June 30, 2017) plus 0.60 percent or the floor rate of 5.00 percent, and are due in full on April 01, 2019. 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, 2017 or 2016.

(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, 2017.

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	1,308,276	-	-	1,308,276
Total Endowment Funds	<u>\$ 1,308,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,308,276</u>

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

(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	\$ 1,202,380	\$ -	\$ -	\$ 1,202,380
Interest and Dividends Net of Investment Expense	53,582	-	-	53,582
Contributions	59,179	-	-	59,179
Gain on Investments	125,272	-	-	125,272
Amounts Appropriated for Expenditures	(39,578)	-	-	(39,578)
Transfer to Capital Outlay Fund	(110,000)	-	-	(110,000)
Transfer from General Fund	17,441	-	-	17,441
Change in Endowment Net Assets	105,896	-	-	105,896
Endowment Net Assets, End of Year	\$ 1,308,276	\$ -	\$ -	\$ 1,308,276

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	\$ 1,202,830	\$ -	\$ -	\$ 1,202,380

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

(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	\$ 1,206,835	\$ -	\$ -	\$ 1,206,835
Interest and Dividends Net of Investment Expense	62,223	-	-	62,223
Net Appreciation	-	-	-	-
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

(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>2017</u>	<u>2016</u>
South Dakota Medicaid (Title XIX)	21%	23%
South Dakota Division of Behavioral Health	44%	39%
Private Pay and Private Insurance	32%	33%
Other	3%	5%

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

	<u>2017</u>	<u>2016</u>
South Dakota Medicaid (Title XIX)	37%	40%
South Dakota Division of Behavioral Health	40%	38%
Private Pay and Private Insurance	12%	16%
Other	11%	6%

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

(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 **\$80,014** and \$54,064 during the years ended June 30, 2017 and 2016, 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, 2018 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, 2017 and 2016, was **\$151,543** and \$146,998, respectively.

(8) Vacation

Effective July 01, 2017, the Organization changed how the vacation benefit is administered. The vacation benefit is no longer earned on a bi-weekly basis. The annual benefit will be available to staff at the beginning of each fiscal year based on the benefit schedule. The Organization no longer distributes unused vacation hours to staff terminating employment with the Organization. Due to this benefit change, the accrued liability has been discontinued.

(9) Contingencies

Self-Insured Health Insurance

During the years ended June 30, 2017 and 2016, 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 **\$63,076** and \$52,350 as of June 30, 2017 and 2016, respectively.

(10) Subsequent Events

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