

BEHAVIOR MANAGEMENT SYSTEMS, INC.

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

CASEY  **PETERSON**
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Behavior Management Systems, Inc.
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June 30, 2019

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Independent Auditor's Report

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, 2019, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 22, 2019

FINANCIAL STATEMENTS

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	----- WITHOUT DONOR RESTRICTIONS -----				Memorandum Only 2018 Total
	UNDESIGNATED	BOARD DESIGNATED		Total	
	General	Contingency	Capital and Program Development		
Current Assets					
Cash and Cash Equivalents	\$ 718,117	\$ 454,616	\$ 186,525	\$ 1,359,258	\$ 1,233,654
Cash - Funds Held in Trust	240,165	-	-	240,165	220,179
Accounts Receivable, Less Allowance for Doubtful Accounts and Contractual Allowance of \$131,802 and \$122,156 at June 30, 2019 and 2018, Respectively	534,981	-	-	534,981	562,553
Prepaid Expenses	83,237	-	-	83,237	60,056
Due From Other Fund	1,765	-	-	1,765	-
Total Current Assets	1,578,265	454,616	186,525	2,219,406	2,076,442
Property and Equipment					
Buildings	5,405,496	-	-	5,405,496	5,405,496
Furniture and Equipment	832,414	-	-	832,414	852,785
Vehicles	600,092	-	-	600,092	632,731
Construction in Progress (Note 10)	76,952	-	-	76,952	-
	6,914,954	-	-	6,914,954	6,891,012
Less: Accumulated Depreciation	5,960,122	-	-	5,960,122	5,729,273
	954,832	-	-	954,832	1,161,739
Land	330,160	-	-	330,160	330,160
	1,284,992	-	-	1,284,992	1,491,899
Other Assets					
Capital Credits Receivable	32,422	-	-	32,422	29,658
Investments (Note 3)	-	-	3,269,372	3,269,372	3,089,182
Total Other Assets	32,422	-	3,269,372	3,301,794	3,118,840
TOTAL ASSETS	\$ 2,895,679	\$ 454,616	\$ 3,455,897	\$ 6,806,192	\$ 6,687,181

The accompanying notes are an integral part of this statement.

	General	Contingency	Capital and Program Development	Total	Memorandum Only 2018 Total
Current Liabilities					
Long-term Debt -					
Current Portion (Note 4)	\$ -	\$ -	\$ -	\$ -	\$ 47,092
Accounts Payable	64,465	-	-	64,465	63,783
Deferred Revenue	193,338	-	-	193,338	20,055
Funds Held in Trust	240,165	-	-	240,165	220,179
Due To Other Fund	-	-	1,765	1,765	-
<i>Accrued Expenses:</i>					
Payroll	256,531	-	-	256,531	272,238
Health Insurance (Note 8)	79,063	-	-	79,063	69,411
Payroll Taxes	19,355	-	-	19,355	19,664
Other	29,197	-	-	29,197	28,906
Total Current Liabilities	882,114	-	1,765	883,879	741,328
Commitments (Note 7)					
Net Assets - Without donor restrictions					
Undesignated	728,573			728,573	851,421
Designated by Board for Operating Reserve		454,616		454,616	527,274
Designated by Board for Capital Outlay			3,454,132	3,454,132	3,122,351
Invested in property and equipment, net of related debt	1,284,992			1,284,992	1,444,807
Total Net Assets	2,013,565	454,616	3,454,132	5,922,313	5,945,853
TOTAL LIABILITIES AND NET ASSETS	\$ 2,895,679	\$ 454,616	\$ 3,455,897	\$ 6,806,192	\$ 6,687,181

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, 2019 AND 2018

	----- WITHOUT DONOR RESTRICTIONS -----			Total	Memorandum Only 2018 Total
	UNDESIGNATED	BOARD DESIGNATED			
	General	Contingency	Capital and Program Development		
Operating Revenues					
Client Fees - Title XIX	\$ 3,246,883	\$ -	\$ -	\$ 3,246,883	\$ 3,345,214
CMHS Block Grant & State Contract	3,842,902	-	-	3,842,902	3,716,932
Client Service Fees	1,141,527	-	-	1,141,527	1,128,019
Other Grants	220,851	-	-	220,851	541,386
Apartment Rentals (Note 7)	160,302	-	-	160,302	146,739
County Revenues	137,800	-	-	137,800	137,800
Total Operating Revenues	8,750,265	-	-	8,750,265	9,016,090
Operating Expenses					
<i>Program Services:</i>					
Care and Residential Services	2,441,287	-	-	2,441,287	2,262,267
Counseling Services	1,786,956	-	-	1,786,956	2,074,907
Children's Services	1,641,957	-	-	1,641,957	1,416,108
Addiction Services	1,025,484	-	-	1,025,484	992,965
Impact West	583,856	-	-	583,856	543,199
Other Grants	128,920	-	-	128,920	127,905
Apartments	147,639	-	-	147,639	105,518
<i>Supporting Services:</i>					
Administrative	1,253,411	1,481	3,270	1,258,162	1,263,196
Total Operating Expenses	9,009,510	1,481	3,270	9,014,261	8,786,065
Operating Income (Loss)	(259,245)	(1,481)	(3,270)	(263,996)	230,025
Other Revenue (Expense)					
Miscellaneous Income	1,109	-	2,365	3,474	2,374
Interest and Dividend Income	16	3,823	525,142	528,981	200,203
Gain on Sale of Asset	-	-	5,368	5,368	-
Contributions	2,500	-	53,269	55,769	42,499
Total Other Revenue	3,625	3,823	586,144	593,592	245,076
Excess of Revenues Over (Under) Expenses	(255,620)	2,342	582,874	329,596	475,101
Other Changes in Net Assets					
Unrealized Gain (Loss) on Investments	-	-	(353,136)	(353,136)	164,421
Increase (Decrease) in Net Assets	(255,620)	2,342	229,738	(23,540)	639,522
Net Assets - Beginning of Year	2,296,228	527,274	3,122,351	5,945,853	5,306,331
Operating Transfers In (Out)	(27,043)	(75,000)	102,043	-	-
Net Assets - End of Year	\$ 2,013,565	\$ 454,616	\$ 3,454,132	\$ 5,922,313	\$ 5,945,853

The accompanying notes are an integral part of this statement.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

PROGRAM SERVICES

	Care and Residential Services	Counseling Services	Children's Services	Addiction Services	Impact West	Other Grants	Apartments
Salaries	\$ 1,760,751	\$ 1,366,795	\$ 1,181,178	\$ 658,951	\$ 431,358	\$ 95,031	\$ 13,718
Fringe Benefits	384,889	277,759	244,537	124,219	98,459	17,375	3,264
Depreciation	41,430	25,854	61,305	88,399	10,445	-	20,215
Psychiatric and Other							
Professional Fees	16,216	26,187	20,849	11,889	609	149	14,422
Supplies	44,254	7,729	4,894	55,874	1,873	85	41
Travel and Transportation	66,026	3,271	43,130	12,808	17,169	3,418	12
Utilities	39,102	18,222	17,022	22,040	7,164	-	28,513
Interest	46	34	56	111	10	-	15
Equipment	17,886	7,673	5,180	6,148	837	22	784
Maintenance and Other	21,613	16,691	34,272	17,782	3,313	11,066	39,176
Telephone	27,618	7,436	17,521	2,245	7,849	1,774	1,018
Insurance and Taxes	10,873	4,441	4,101	5,043	2,369	-	13,888
Buildings and Grounds	10,389	2,450	1,763	12,667	2,401	-	12,573
Miscellaneous	34	-	4	7,118	-	-	-
Bad Debt	160	22,414	1,345	190	-	-	-
Rent - Facilities	-	-	4,800	-	-	-	-
Total Expenses	\$ 2,441,287	\$ 1,786,956	\$ 1,641,957	\$ 1,025,484	\$ 583,856	\$ 128,920	\$ 147,639

The accompanying notes are an integral part of this statement.

**SUPPORTING
SERVICES**

<u>Administrative</u>		<u>Total</u>	Memorandum Only 2018 Total	
\$	709,161	\$ 6,216,943	\$ 6,264,779	Salaries
	168,828	1,319,330	1,138,010	Fringe Benefits
	95,864	343,512	342,914	Depreciation
				Psychiatric and Other
	196,210	286,531	250,022	Professional Fees
	11,978	126,728	148,415	Supplies
	9,051	154,885	131,721	Travel and Transportation
	16,609	148,672	164,028	Utilities
	14	286	9,769	Interest
	14,196	52,726	35,757	Equipment
	10,466	154,379	106,733	Maintenance and Other
	12,313	77,774	61,094	Telephone
	8,341	49,056	49,630	Insurance and Taxes
	2,154	44,397	43,498	Buildings and Grounds
	-	7,156	9,715	Miscellaneous
	-	24,109	21,297	Bad Debt
	2,977	7,777	8,683	Rent - Facilities
\$	1,258,162	\$ 9,014,261	\$ 8,786,065	Total Expenses

The accompanying notes are an integral part of this statement.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Increase (Decrease) in Net Assets	\$ (23,540)	\$ 639,522
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:</i>		
Depreciation	343,512	342,914
Gain on Sale of Property and Equipment	(5,368)	-
Unrealized (Gain) Loss on Investments	353,136	(164,421)
Increase in Capital Credits Receivable	(2,764)	(1,507)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Accounts Receivable	27,572	(52,121)
Prepaid Expenses	(23,181)	2,579
Accounts Payable	682	(6,534)
Accrued Expenses	(6,073)	37,385
Deferred Revenue	173,283	(412)
Net Cash Flows Provided by Operating Activities	837,259	797,405
Cash Flows From Investing Activities		
Proceeds from Sale of Investments	1,038,500	32,500
Purchase of Investments	(1,571,827)	(203,884)
Purchases of Property and Equipment	(141,990)	(53,699)
Proceeds from Sale of Property and Equipment	10,754	-
Net Cash Flows Used in Investing Activities	(664,563)	(225,083)
Cash Flows Used in Financing Activities		
Repayment of Long-Term Debt	(47,092)	(274,504)
Net Increase (Decrease) in Cash and Cash Equivalents	125,604	297,818
Cash and Cash Equivalents -- Beginning of Year	1,233,654	935,836
Cash and Cash Equivalents -- End of Year	\$ 1,359,258	\$ 1,233,654
Supplemental Disclosures of Cash Flow Information		
Cash Paid During the Year for Interest	\$ 293	\$ 9,806

The accompanying notes are an integral part of this statement.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

(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. Services are provided using a directive, client-centered counseling method of motivational interviewing to elicit behavior changes by helping the clients to explore and resolve ambivalent feelings and insecurities to find the internal motivation they need to change their behavior.

The majority of the Organization's revenue is received from the State of South Dakota. Comprehensive data collection and outcome tools are used by the Organization to ensure that the services funded are held to a high standard of quality and effectiveness and improved outcomes for clients.

Care and residential services are provided to adults disabled by mental illness to regain the confidence and skills necessary to lead productive, and satisfying lives. Comprehensive Assistance with Recovery and Empowerment (CARE) services are provided on an outreach basis, usually in the client's home or in the community. Using a team approach of mental health professionals, consisting of therapists, case managers, nurses, psychiatrist and certified nurse practitioners, services are provided to assist the client to experience the hope of recovery and to live successfully in the community.

Residential housing services provide room and board and a safe living environment for adults recovering from mental illness to acquire the skills needed to live successfully independently. The goal of these services is to help clients transition into their own living arrangements.

Counseling services are outpatient services, generally provided in an office setting. Services are provided to adults, couples, children, and teenagers, individually, in groups, or family settings, focusing on consumer driven services. Also included in counseling services are emergency services that are provided 24 hours per day, seven days a week, for persons experiencing a mental health emergency or crisis.

Children's services are provided to children and adolescents with serious emotional disturbance. Services are available to the child, their parents or guardian, and any siblings or other household members. Services are provided on an outreach basis, usually in the client's home, school, or other location in the community. These child-centered, family-focused, community-based services are to assist the child to be able to live with their families and their home community.

Addictions services consist of the continuum of care of services from outpatient services, generally provided in an office setting to an in-patient residential facility for pregnant women and women with dependent children with substance abuse issues, to move them forward on their recovery goals.

Impact West services are services provided to adults disabled by mental illness and who historically have been unsuccessful in community settings and have had frequent psychiatric hospitalizations. Individualized and Mobile Program of Assertive Community Treatment (IMPACT) services are provided on an outreach basis, usually in the client's home or community. Using a team approach of mental health professionals, consisting of therapists, case managers, nurses, psychiatrists and certified nurse practitioners, intensive 24 hours per day, seven days a week services are provided to assist the client to experience the hope of recovery, to live successfully in the community, and to reduce the need for repeated or prolonged psychiatric hospitalizations.

Other grants are federal funded services, with a local match. The Projects for Assistance in Transitioning from Homelessness (PATH) provides one time rental or security deposit assistance for eligible adults and provides outreach services for adults who are homeless or at risk of becoming homeless.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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

Apartments are rental facilities leased to individuals who are currently receiving or have previously received services from the Organization.

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.

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.

Capital and Program Development Fund

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

Financial Statement Presentation and Net Asset Classification

Net assets, revenues, gains and losses are classified on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and capital outlay.

Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) 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 expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization did not have any donor restricted net assets at June 30, 2019.

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."

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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

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 beneficiaries.

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, 2019 and 2018 were **\$131,802** and \$122,156, respectively. Client receivables are charged off as bad debt expense when all reasonable collection efforts have been exhausted. Past due client receivables total **\$70,320** and \$69,504 at June 30, 2019 and 2018, 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

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 excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses are excluded from excess of revenues over expenses unless the investments are trading securities.

Revenue Recognition

Revenue is recognized when earned. 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. Program services fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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

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

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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 on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other which are allocated on the basis of estimates of time and effort.

Advertising

The Organization's policy is to expense advertising costs as they are incurred. Advertising costs for the year ended June 30, 2019 and 2018 were **\$35,619** and \$19,412, respectively.

Federal Income Tax

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, 2019, 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 2015. 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, 2019 AND 2018

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

Financial Instruments and Credit Risk

The Organization manages deposit concentration by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in the money market mutual funds. To date, no losses have been experienced in any of these accounts. Investments are made by diversified investments managers whose performance is monitored by management and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organization and the investment committee believe that the investment policies and guidelines are prudent for the welfare of the Organization.

(2) Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 1,359,258	\$ 1,233,654
Accounts Receivable, Net	534,981	562,553
Investments	3,269,372	3,089,182
	<u>\$ 5,163,611</u>	<u>\$ 4,885,389</u>

The Organization has a goal to maintain financial assets, which may consist of cash and short-term investments in the General and Contingency Funds, on hand to meet up to 90 days of normal operating expenses. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Board of Directors designates funds for property and equipment acquisitions and program developments, which could be made available if necessary. Designated funds for such acquisitions and program developments were **\$3,454,132** and \$3,122,351 for the years ended June 30, 2019 and 2018, respectively. Additionally, as more fully described in Note 4, Long-term Debt, the Organization has a committed line of credit in the amount of \$250,000, which could be drawn upon in the event of unanticipated liquidity need.

(3) Investments

The Organization accounts for assets and liabilities recorded at fair value based on a three-level hierarchy. 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. The Organization has categorized its investments, based on the priority of the inputs to the valuation technique, into three broad levels of hierarchy.

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.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

(3) Investments (Continued)

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, 2019.

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.

The following table sets forth carrying amounts and estimated fair values for financial instruments as of June 30, 2019:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Money Market Funds	\$ 1,035,615	\$ -	\$ -	\$ 1,035,615
Federal Home Loan Mortgage (Freddie Mac) (Maturing in 2034)	258	-	-	258
Government National Mortgage (Ginnie Mae) (Maturing in 2028)	1,470	-	-	1,470
Moody's AAA Federal Mortgage Assn (Maturing in 2032)	451	-	-	451
Bond Funds	29,657	-	-	29,657
Stocks	16,941	-	-	16,941
Mutual Funds - Foreign Large Growth	858	-	-	858
Mutual Funds - Large Cap Balanced	507,163	-	-	507,163
Mutual Funds - Large Cap Growth	804,267	-	-	804,267
Mutual Funds - Large Cap Growth and Income	872,692	-	-	872,692
Totals:	\$ 3,269,372	\$ -	\$ -	\$ 3,269,372

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

Other Income:	
Interest, Dividends and Capital Gains	\$ 214,347
Realized Gains on Investments	314,618
	<u>\$ 528,965</u>
Other Changes In Unrestricted Net Assets	
Unrealized Gains(Losses) on Investments	<u>\$ (353,136)</u>

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

(3) Investments (Continued)

The following table sets forth investments in an unrealized gain (loss) position 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)	\$ -	\$ -	\$ 258	\$ 31
Government National Mortgage (Ginnie Mae)	-	-	1,470	154
Moody's AAA Federal Mortgage Assn	-	-	451	37
Bond Funds	29,657	(4,243)	-	-
Stocks	556	(16)	16,385	954
Mutual Funds - Foreign Large Growth	-	-	858	51
Mutual Funds - Large Cap Balanced	-	-	507,163	150,039
Mutual Funds - Large Cap Growth	-	-	804,267	295,555
Mutual Funds - Large Cap Growth and Income	-	-	872,692	235,643
Totals:	\$ 30,213	\$ (4,259)	\$ 2,203,544	\$ 682,464

The following sets forth the duration of the investments in an unrealized loss position at June 30, 2019:

	<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>
Stocks	\$ -	\$ -	\$ 556	\$ (16)
Bond Funds	29,657	(4,243)	-	-
Totals:	\$ 29,657	\$ (4,243)	\$ 556	\$ (16)

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, 2019.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

(3) Investments (Continued)

The following table sets forth carrying amounts and estimated fair values for financial instruments as of June 30, 2018:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Money Market Funds	\$ 4,183	\$ -	\$ -	\$ 4,183
Federal Home Loan Mortgage (Freddie Mac) (Maturing in 2034)	294	-	-	294
Government National Mortgage (Ginnie Mae) (Maturing in 2028)	1,666	-	-	1,666
Moody's AAA Federal Mortgage Assn (Maturing in 2032)	513	-	-	513
US Treasury Inflation Protected Securities (Maturing in 2018)	11,631	-	-	11,631
Bond Funds	75,539	-	-	75,539
Mutual Funds - Large Cap Equity Income	203,456	-	-	203,456
Mutual Funds - Large Cap Balanced	473,960	-	-	473,960
Mutual Funds - Large Cap Growth	825,693	-	-	825,693
Mutual Funds - Large Cap Growth and Income	1,492,247	-	-	1,492,247
Totals:	\$ 3,089,182	\$ -	\$ -	\$ 3,089,182

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

Other Income	
Interest, Dividends and Capital Gains	<u>\$ 200,203</u>
Other Changes In Unrestricted Net Assets	
Unrealized Gains on Investments	<u>\$ 164,421</u>

The following table sets forth investments in an unrealized gain (loss) position 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)	\$ -	\$ -	\$ 265	\$ 29
Government National Mortgage (Ginnie Mae)	-	-	1,572	94
Moody's AAA Federal Mortgage Assn	-	-	472	41
US Treasury Inflation Protected Securities	-	-	9,918	1,713
Bond Funds	82,752	(7,213)	-	-
Mutual Funds - Large Cap Equity Income	-	-	152,878	50,578
Mutual Funds - Large Cap Balanced	-	-	329,253	144,707
Mutual Funds - Large Cap Growth	-	-	481,889	343,804
Mutual Funds - Large Cap Growth and Income	-	-	994,660	497,587
Totals:	\$ 82,752	\$ (7,213)	\$ 1,970,907	\$ 1,038,553

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

(3) Investments (Continued)

The following sets forth the duration of the investments in an unrealized loss position at June 30, 2018:

	<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	\$ 82,752	\$ (7,213)	\$ -	\$ -

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, 2018.

(4) Long-term Debt

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

	<u>2019</u>	<u>2018</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.	\$ -	\$ 47,092
Less: Current Portion	-	47,092
	<u>\$ -</u>	<u>\$ -</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 (5.50 percent at June 30, 2019) plus 0.60 percent or the floor rate of 5.00 percent, and are due in full on June 01, 2021. 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, 2019.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

(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>2019</u>	<u>2018</u>
South Dakota Medicaid (Title XIX)	20%	17%
South Dakota Division of Behavioral Health	42%	43%
Private Pay and Private Insurance	35%	37%
Other	3%	3%

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

	<u>2019</u>	<u>2018</u>
South Dakota Medicaid (Title XIX)	37%	37%
South Dakota Division of Behavioral Health	44%	41%
Private Pay and Private Insurance	13%	13%
Other	6%	9%

(6) Retirement Plan

The Organization belongs to the South Dakota Association of Community Based Human Services (SDACBHS) Retirement Plan 401(k) retirement plan covering substantially all employees desiring to participate. The SDACBHS 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 **\$114,599** and \$127,611 during the years ended June 30, 2019 and 2018, 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, 2020 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, 2019 and 2018 was **\$160,302** and \$146,739, respectively. The cost basis of property being leased at June 30, 2019 and 2018 was \$665,659 and accumulated depreciation at June 30, 2019 and 2018 was **\$524,299** and \$504,387, respectively.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

(8) Contingencies

Self-Insured Health Insurance

During the years ended June 30, 2019 and 2018 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 **\$79,063** and \$69,411 as of June 30, 2019 and 2018, respectively.

(9) Emerging Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The ASU outlines several steps to achieve proper revenue recognition. This standard is effective for annual reporting periods beginning after December 15, 2018. The Organization is evaluating the impact this standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB Topic 840, *Leases (Topic 840)* and provides principles for the recognition, measurement, presentation and disclosure of leases. Lessees will be required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months. This standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is evaluating the impact this standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which will assist entities in determining whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. The standard also assists entities in determining whether a contribution is conditional on the basis of whether a barrier must be overcome and either a right of return of assets transferred or a right of release of the promisor from its obligation to transfer assets exists. The standard is effective for contributions received in annual periods beginning after December 15, 2018 and for contributions made in annual periods beginning after December 15, 2019. The Organization is evaluating the impact this standard will have on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements*, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard is effective for fiscal years beginning after December 15, 2019. The Organization is evaluating the impact this standard will have on the financial statements.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

(10) Commitments

The Organization is in the process of purchasing a certified Electronic Health Records and Practice Management System. The estimated implementation date is July 1, 2020. Remaining payments of approximately \$100,500 will be funded through the Capital and Program Development Fund.

(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.