

BEHAVIOR MANAGEMENT SYSTEMS, INC.

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

CASEY  **PETERSON**
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Behavior Management Systems, Inc.
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June 30, 2020

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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, 2020, 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 following 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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

November 24, 2020

FINANCIAL STATEMENTS

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	----- WITHOUT DONOR RESTRICTIONS - -----				Memorandum Only 2019 Total
	UNDESIGNATED	BOARD DESIGNATED		Total	
	General	Contingency	Capital and Program Development		
Current Assets					
Cash and Cash Equivalents	\$ 1,845,270	\$ 29,815	\$ 164,042	\$ 2,039,127	\$ 1,359,258
Cash - Funds Held in Trust	321	-	-	321	240,165
Accounts Receivable, Less Allowance for Doubtful Accounts and Contractual Allowance of \$114,648 and \$131,802 at June 30, 2020 and 2019, Respectively	705,502	-	-	705,502	534,981
Prepaid Expenses	89,646	-	-	89,646	83,237
Due From Other Fund	3,267	-	39,208	42,475	1,765
Total Current Assets	2,644,006	29,815	203,250	2,877,071	2,219,406
Property and Equipment					
Buildings	5,320,184	-	-	5,320,184	5,405,496
Furniture and Equipment	813,238	-	-	813,238	832,414
Vehicles	642,323	-	-	642,323	600,092
Construction in Progress (Note 10)	108,544	-	-	108,544	76,952
	6,884,289	-	-	6,884,289	6,914,954
Less: Accumulated Depreciation	6,103,210	-	-	6,103,210	5,960,122
	781,079	-	-	781,079	954,832
Land	324,827	-	-	324,827	330,160
	1,105,906	-	-	1,105,906	1,284,992
Other Assets					
Capital Credits Receivable	36,088	-	-	36,088	32,422
Investments (Note 3)	-	510,367	3,474,853	3,985,220	3,269,372
Total Other Assets	36,088	510,367	3,474,853	4,021,308	3,301,794
TOTAL ASSETS	\$ 3,786,000	\$ 540,182	\$ 3,678,103	\$ 8,004,285	\$ 6,806,192

The accompanying notes are an integral part of this statement.

	General	Contingency	Capital and Program Development	Total	Memorandum Only 2019 Total
Current Liabilities					
Accounts Payable	66,035	-	-	66,035	64,465
Deferred Revenue	20,218	-	-	20,218	193,338
Refundable Advance (Note 11)	1,528,176	-	-	1,528,176	-
Funds Held in Trust	321	-	-	321	240,165
Due To Other Fund	39,208	-	3,267	42,475	1,765
<i>Accrued Expenses:</i>					
Payroll	292,898	-	-	292,898	256,531
Health Insurance (Note 8)	66,559	-	-	66,559	79,063
Payroll Taxes	21,098	-	-	21,098	19,355
Other	23,353	-	-	23,353	29,197
Total Current Liabilities	2,057,866	-	3,267	2,061,133	883,879
Commitments (Note 7)					
Net Assets - Without Donor Restrictions					
Undesignated	622,228	-	-	622,228	728,573
Designated by Board for Operating Reserve	-	540,182	-	540,182	454,616
Designated by Board for Capital Outlay	-	-	3,674,836	3,674,836	3,454,132
Invested in Property and Equipment, Net of Related Debt	1,105,906	-	-	1,105,906	1,284,992
Total Net Assets	1,728,134	540,182	3,674,836	5,943,152	5,922,313
TOTAL LIABILITIES AND NET ASSETS	\$ 3,786,000	\$ 540,182	\$ 3,678,103	\$ 8,004,285	\$ 6,806,192

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, 2020 AND 2019

	----- WITHOUT DONOR RESTRICTIONS -----				Memorandum Only 2019 Total
	UNDESIGNATED	BOARD DESIGNATED		Total	
	General	Contingency	Capital and Program Development		
Operating Revenues					
CMHS Block Grant & State Contract	\$ 4,085,937	\$ -	\$ -	\$ 4,085,937	\$ 3,842,902
Client Fees - Title XIX	3,322,936	-	-	3,322,936	3,246,883
Client Service Fees	1,028,269	-	-	1,028,269	1,141,527
Other Grants	411,009	-	-	411,009	220,851
Apartment Rentals (Note 7)	160,732	-	-	160,732	160,302
County Revenues	137,800	-	-	137,800	137,800
Total Operating Revenues	9,146,683	-	-	9,146,683	8,750,265
Operating Expenses					
<i>Program Services:</i>					
Care and Residential Services	2,449,985	-	-	2,449,985	2,441,287
Children's Services	1,979,538	-	-	1,979,538	1,641,957
Counseling Services	1,504,184	-	-	1,504,184	1,786,956
Addiction Services	1,031,448	-	-	1,031,448	1,025,484
Impact West	697,822	-	-	697,822	583,856
Other Grants	140,461	-	-	140,461	128,920
Apartments	108,822	-	-	108,822	147,639
<i>Supporting Services:</i>					
Administrative	1,258,587	-	34,353	1,292,940	1,258,162
Total Operating Expenses	9,170,847	-	34,353	9,205,200	9,014,261
Operating Income (Loss)	(24,164)	-	(34,353)	(58,517)	(263,996)
Other Revenue (Expense)					
Investment Return (Loss)	10	10,566	30,675	41,251	175,845
Contributions	3,705	-	41,725	45,430	55,769
Miscellaneous Income	42	-	1,633	1,675	3,474
Gain (Loss) on Disposal of Asset	-	-	(9,000)	(9,000)	5,368
Total Other Revenue	3,757	10,566	65,033	79,356	240,456
Increase (Decrease) in Net Assets	(20,407)	10,566	30,680	20,839	(23,540)
Net Assets - Beginning of Year	2,013,565	454,616	3,454,132	5,922,313	5,945,853
Operating Transfers In (Out)	(265,024)	75,000	190,024	-	-
Net Assets - End of Year	\$ 1,728,134	\$ 540,182	\$ 3,674,836	\$ 5,943,152	\$ 5,922,313

The accompanying notes are an integral part of this statement.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

PROGRAM SERVICES

	Care and Residential Services	Counseling Services	Children's Services	Addiction Services	Impact West	Other Grants	Apartments
Salaries	\$ 1,794,477	\$ 1,151,924	\$ 1,452,333	\$ 698,276	\$ 523,114	\$ 108,741	\$ 9,831
Fringe Benefits	358,245	190,226	275,818	131,966	108,895	16,590	1,976
Psychiatric and Other							
Professional Fees	13,088	28,724	15,560	14,228	1,363	119	14,420
Depreciation	48,914	15,045	47,649	50,249	15,013	-	20,216
Maintenance and Other	20,788	12,932	54,909	21,678	2,928	10,239	17,679
Utilities	38,786	14,684	18,929	24,466	8,127	-	28,518
Travel and Transportation	61,725	2,355	49,578	8,834	19,059	1,844	-
Supplies	48,139	10,180	8,907	46,647	2,732	750	-
Equipment	12,204	29,270	15,431	3,057	973	5	1,731
Telephone	25,316	9,384	22,489	1,973	10,236	2,173	539
Insurance and Taxes	13,275	4,014	5,195	6,459	1,869	-	11,413
Buildings and Grounds	13,301	7,855	2,507	14,998	3,177	-	2,492
Bad Debt	356	27,124	4,662	754	-	-	-
Miscellaneous	170	-	-	7,399	-	-	-
Rent - Facilities	71	-	4,800	-	-	-	-
Interest	1,130	467	771	464	336	-	7
Total Expenses	\$ 2,449,985	\$ 1,504,184	\$ 1,979,538	\$ 1,031,448	\$ 697,822	\$ 140,461	\$ 108,822

The accompanying notes are an integral part of this statement.

**SUPPORTING
SERVICES**

<u>Administrative</u>		<u>Total</u>	Memorandum Only 2019 Total	
\$	771,155	\$ 6,509,851	\$ 6,216,943	Salaries
	161,468	1,245,184	1,319,330	Fringe Benefits
				Psychiatric and Other
	250,326	337,828	286,531	Professional Fees
	31,976	229,062	343,512	Depreciation
	11,028	152,181	154,379	Maintenance and Other
	16,623	150,133	148,672	Utilities
	6,392	149,787	154,885	Travel and Transportation
	9,495	126,850	126,728	Supplies
	10,884	73,555	52,726	Equipment
	13,170	85,280	77,774	Telephone
	6,609	48,834	49,056	Insurance and Taxes
	2,154	46,484	44,397	Buildings and Grounds
	-	32,896	24,109	Bad Debt
	-	7,569	7,156	Miscellaneous
	1,359	6,230	7,777	Rent - Facilities
	301	3,476	286	Interest
\$	1,292,940	\$ 9,205,200	\$ 9,014,261	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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	\$ 20,839	\$ (23,540)
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:</i>		
Depreciation	229,062	343,512
(Gain) Loss on Sale of Property and Equipment	9,000	(5,368)
Unrealized Loss on Investments	128,839	353,136
Realized Loss on Investments	15,114	-
Increase in Capital Credits Receivable	(3,666)	(2,764)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Accounts Receivable	(170,521)	27,572
Prepaid Expenses	(6,409)	(23,181)
Accounts Payable	1,570	682
Accrued Expenses	19,762	(6,073)
Funds Held in Trust	(239,844)	19,987
Refundable Advance	1,528,176	-
Deferred Revenue	(173,120)	173,283
Net Cash Flows Provided by Operating Activities	1,358,802	857,246
Cash Flows from Investing Activities		
Proceeds from Sale of Investments	1,090,982	1,038,500
Purchase of Investments	(1,950,784)	(1,571,827)
Purchases of Property and Equipment	(99,183)	(141,990)
Proceeds from Sale of Property and Equipment	40,208	10,754
Net Cash Flows Used in Investing Activities	(918,777)	(664,563)
Cash Flows Used in Financing Activities		
Repayment of Long-Term Debt	-	(47,092)
Net Increase in Cash, Cash Equivalents, and Restricted Cash	440,025	145,591
Cash, Cash Equivalents, and Restricted Cash -- Beginning of Year	1,599,423	1,453,832
Cash, Cash Equivalents, and Restricted Cash -- End of Year	\$ 2,039,448	\$ 1,599,423
Cash, Cash Equivalents, and Restricted Cash Consists of:		
Cash and Cash Equivalents	\$ 2,039,127	\$ 1,359,258
Cash - Funds Held in Trust	321	240,165
Total Cash, Cash Equivalents, and Restricted Cash	\$ 2,039,448	\$ 1,599,423
Supplemental Disclosures of Cash Flow Information		
Cash Paid During the Year for Interest	\$ -	\$ 293

The accompanying notes are an integral part of this statement.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

(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, recovery coaches, nurses, 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, either individually, in groups, or in 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, recovery coaches, nurses, 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 federally 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, 2020 AND 2019

(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, 2020 and 2019.

Cash and Cash Equivalents

For the purpose 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.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

(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 uncollateralized amounts due from clients and third-party payors and are recorded at the amount management expects to collect. Care is provided regardless of the client's ability to pay. Payments of patient receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim. 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 contractual agreements, past payment collection history, and changes in a patient's or third-party payor's ability to pay that may have occurred subsequent to recognition. Allowances at June 30, 2020 and 2019 were **\$114,648** and \$131,802, respectively. Client receivables are charged off as bad debt expense based on historical collection experience and when all reasonable collection efforts have been exhausted. Past due client receivables total **\$58,765** and \$70,320 at June 30, 2020 and 2019, 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

Investments are reported at fair value and are based primarily on quoted market prices or estimated fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Deferred Revenue

The Organization receives contract funding from area County Governments and local businesses for services. The Organization may collect fees for services in advance of services being provided. Deferred revenue is recognized as revenue as services are provided to clients under these contracts.

Revenue Recognition

Revenue is recognized when earned as performance obligations are satisfied. Client service fees are based on usual and customary rates for services provided. 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, 2020 AND 2019

(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 and Promises to Give

The Organization receives contributions to support operating activities and capital projects. These contributions can be from individuals, granting agencies, foundations, corporations, or trusts. The Organization records promises to give, net of allowances for estimated uncollectable amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was received. Conditional gifts, with a measurable performance or other barrier and right of return, are not recognized until the conditions on which they depend are substantially met or explicitly waived by the donor. The Organization discounts multi-year pledges that are expected to be collected after one year using a risk-adjusted discount rate. Multi-year pledges are recorded at fair value at the date of the pledge. The Organization had no promises to give as of June 30, 2020 and 2019.

Grants and Contracts

The Organization receives grant and contract funding from various federal, state, and local governments to provide a variety of program services to the public based on specific requirements included in the agreement, including eligibility, procurement, reimbursement, staffing, and other requirements. These program services are described in Note 1. Such government grants and contracts are nonreciprocal transactions and include conditions stipulated by the government agencies and are, therefore, accounted for as conditional contributions. Public support is recognized as conditions are satisfied, primarily as expenses are incurred.

Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities and 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 and depreciation 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 based on 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, 2020 and 2019 were **\$26,027** and \$35,619, respectively.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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

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, 2020, 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 2016. 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.

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 investment 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.

Accounting Pronouncements Adopted

In June 2018, the FASB issued (ASU) 2018-08, *Not-for-Profit Entities: Topic 958*. The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional. The Organization adopted this ASU on July 1, 2019. The Organization implemented ASU 2018-08 using the retrospective method of application.

In November 2016, the Financial Accounting Standards Board (FASB) published Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which changes the presentation and disclosure of cash, cash equivalents, and restricted cash or restricted equivalents (cash) in the Statement of Cash Flows. The standard requires the presentation of the changes in all cash when reconciling the beginning and ending cash balances on the Statement of Cash Flows. The standard does not change the definitions of restricted cash or restricted cash equivalents. Previous U.S. GAAP allowed changes in restricted cash to be shown as investing activities.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying Statement of Cash Flows to maintain consistency between periods presented due to the adoption of ASUs 2018-08 and 2016-18 as explained above.

Balances for the Year Ended June 30, 2019

The Statement of Financial Position, Statement of Activities and Changes in Net Assets, and Statement of Functional Expenses for the year ended June 30, 2019 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. The complete June 30, 2019 Statement of Financial Position, Statement of Activities and Changes in Net Assets, and Statement of Functional Expenses were included in the prior year report but are not presented here because of space limitations and to avoid cumbersome and confusing formats.

(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>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 2,039,127	\$ 1,359,258
Accounts Receivable, Net	705,502	534,981
Investments	3,985,220	3,269,372
	<u>\$ 6,729,849</u>	<u>\$ 5,163,611</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 **\$3,674,836** and \$3,454,132 for the years ended June 30, 2020 and 2019, respectively. The Board also sets aside funds to be used in conjunction with the General Fund to have 90 days of operating expenses available in the event of unanticipated cash flow problems. Funds set aside for this purpose were **\$540,182** and \$454,616 for the years ended June 30, 2020 and 2019, 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.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

(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.

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 that 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, 2020.

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, 2020 AND 2019****(3) Investments (Continued)**

The following table sets forth carrying amounts and estimated fair values for financial instruments as of June 30, 2020:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Money Market Funds	\$ 12,433	\$ -	\$ -	\$ 12,433
Federal Home Loan Mortgage (Freddie Mac) (Maturing in 2034)	216	-	-	216
Government National Mortgage (Ginnie Mae) (Maturing in 2028)	1,186	-	-	1,186
Moody's AAA Federal Mortgage Assn (Maturing in 2032)	412	-	-	412
Bond Funds	616,352	-	-	616,352
Stocks	16,678	-	-	16,678
Mutual Funds - Foreign Large Growth	881	-	-	881
Mutual Funds - Large Cap Balanced	538,955	-	-	538,955
Mutual Funds - Large Cap Growth	924,000	-	-	924,000
Mutual Funds - Equity	965,702	-	-	965,702
Mutual Funds - Large Cap Growth and Income	908,405	-	-	908,405
Totals:	\$ 3,985,220	\$ -	\$ -	\$ 3,985,220

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

Other Income	
Interest, Dividends and Capital Gains	\$ 189,286
Realized Loss on Investments	(15,114)
	<u>\$ 174,172</u>
Other Changes In Unrestricted Net Assets	
Unrealized Loss on Investments	<u>\$ (128,839)</u>

BEHAVIOR MANAGEMENT SYSTEMS, INC.**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019****(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)	\$ -	\$ -	\$ 216	\$ 31
Government National Mortgage (Ginnie Mae)	-	-	1,186	132
Moody's AAA Federal Mortgage Assn	-	-	412	59
Bond Funds	105,985	(14,015)	510,367	5,236
Stocks	7,356	(1,196)	9,322	1,708
Mutual Funds - Foreign Large Growth	-	-	881	50
Mutual Funds - Large Cap Balanced	-	-	538,955	159,278
Mutual Funds - Large Cap Growth	-	-	924,000	364,285
Mutual Funds - Equity	760,923	(197,763)	204,779	10,061
Mutual Funds - Large Cap Growth and Income	-	-	908,405	221,497
Totals:	\$ 874,264	\$ (212,974)	\$ 3,098,523	\$ 762,337

The following sets forth the duration of the investments in an unrealized loss position at June 30, 2020:

	<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	\$ -	\$ -	\$ 105,985	\$ (14,015)
Bond Funds	7,356	(1,196)	-	-
Mutual Funds - Equity	-	-	760,923	(197,763)
Totals:	\$ 7,356	\$ (1,196)	\$ 866,908	\$ (211,778)

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's 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 of 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, 2020.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

(3) Investments (Continued)

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 on Investments	<u>\$ (353,136)</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)	\$ -	\$ -	\$ 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

BEHAVIOR MANAGEMENT SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

(3) Investments (Continued)

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:	<u>\$ 29,657</u>	<u>\$ (4,243)</u>	<u>\$ 556</u>	<u>\$ (16)</u>

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's 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 of 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.

(4) Long-term Debt

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 (3.25 percent at June 30, 2020) plus 0.60 percent or the floor rate of 5.00 percent, and are due in full on June 1, 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, 2020 and 2019.

(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>2020</u>	<u>2019</u>
South Dakota Division of Behavioral Health	36%	42%
South Dakota Medicaid (Title XIX)	14%	20%
Private Pay and Private Insurance	25%	35%
Other	25%	3%

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

	<u>2020</u>	<u>2019</u>
South Dakota Division of Behavioral Health	45%	44%
South Dakota Medicaid (Title XIX)	36%	37%
Private Pay and Private Insurance	11%	13%
Other	8%	6%

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

(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 **\$107,764** and \$114,599 during the years ended June 30, 2020 and 2019, 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, 2021 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, 2020 and 2019 was **\$160,732** and \$160,302, respectively. The cost basis of property and accumulated depreciation being leased at June 30 was as follows:

	<u>2020</u>	<u>2019</u>
Cost Basis	\$ 633,238	\$ 665,659
Less: Accumulated Depreciation	540,472	524,299
	<u><u>\$ 92,766</u></u>	<u><u>\$ 141,360</u></u>

(8) Contingencies

Self-Insured Health Insurance

During the years ended June 30, 2020 and 2019 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. A plan with deductibles of \$1,500 per individual or \$3,000 per family is offered as well as a plan with deductibles of \$2,500 per individual or \$5,000 per family. Once the deductibles are met, the plan has an 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 **\$66,559** and \$79,063 as of June 30, 2020 and 2019, 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, 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, 2020 AND 2019

(9) Emerging Accounting Standards (Continued)

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, 2021, with early adoption permitted. 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.

(10) Commitments

The Organization is in the process of purchasing a certified Electronic Health Records and Practice Management System. The estimated implementation date is February 1, 2021. Remaining payments of approximately \$51,085 will be funded through the Capital and Program Development Fund.

(11) Small Business Administration Paycheck Protection Program (PPP) Refundable Advance

The Organization received a forgivable loan through the Small Business Administration Paycheck Protection Program (PPP) in April 2020 in the amount of \$1,524,700. The Organization anticipates meeting the eligibility criteria for forgiveness and thus expects the application for forgiveness to be approved once submitted. Revenue will be recognized once the conditions of the release have been explicitly waived. Any balance not forgiven is required to be paid in one balloon payment including interest of 1.00% on April 2022.

(12) Coronavirus Aid, Relief, and Economic Security (CARES) Provider Relief Fund (PRF)

The Organization recognized \$167,382 in operating revenue received from the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds (PRF) administered by the Department of Health and Human Services (HHS) during the year ended June 30, 2020. The funds are subject to terms and conditions imposed by HHS including, but not limited to, provisions that payments will only be used to cover healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses attributable to coronavirus that have been reimbursed from other sources or that other sources are obligated to reimburse. If healthcare-related expenses are to be reimbursed by another source, then the payments are to be used to cover lost revenues net of healthcare-related expenses attributable to coronavirus up to the amount of the 2019 net gain from healthcare-related sources. If there was a net loss in 2019 then lost revenues can be covered up to a net-zero gain/loss.

The terms and conditions are subject to interpretation and future clarification by HHS. In addition, the Organization will be required to adhere to reporting requirements as defined by HHS which may be subject to oversight, monitoring and audit. Failure to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is a possibility that recorded estimates will change by a material amount in the future.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

(13) Coronavirus (COVID-19)

The coronavirus global pandemic of COVID-19 has impacted economies, businesses, and stock markets worldwide. The financial position and activities as of and for the year ended June 30, 2020 have not been adjusted as the Organization has determined this to be a non-adjusting event. The duration and impact of COVID-19 remains unclear at this time and it is not possible to reliably estimate potential consequences the pandemic may have on the Organization or its financial position in future periods.

(14) 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.