

# **BEHAVIOR MANAGEMENT SYSTEMS, INC.**

## **(A NON-PROFIT ORGANIZATION)**

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Financial Statements

**June 30, 2023 and 2022**





**Behavior Management Systems, Inc.**  
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**June 30, 2023 and 2022**

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## Independent Auditor's Report

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

### **Report on the Audit of the Financial Statements**

#### *Opinion*

We have audited the financial statements of Behavior Management Systems, Inc. (a non-profit organization) (the Organization) which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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

#### *Responsibilities of Management for the Financial Statements*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

### *Other Matter - Prior Period Financial Statements*

We have previously audited the Organization's financial statements as of June 30, 2022, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2022. The financial statements present, for informational purposes, the prior year balances as only a memorandum. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Casey Peterson, LTD*

Casey Peterson, LTD

Rapid City, South Dakota  
October 24, 2023

## FINANCIAL STATEMENTS

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2023 AND 2022

	----- WITHOUT DONOR RESTRICTIONS -----				
	UNDESIGNATED	BOARD DESIGNATED			
	General	Contingency	Capital and Program Development	Total	2022 Total
<b>Current Assets</b>					
Cash and Cash Equivalents	\$ 217,510	\$ 307,697	\$ 109,886	\$ 635,093	\$ 2,400,648
Cash - Funds Held in Trust	314,527	-	-	314,527	303,441
Accounts Receivable	847,062	-	-	847,062	614,372
Prepaid Expenses	128,137	-	-	128,137	113,493
<b>Total Current Assets</b>	<b>1,507,236</b>	<b>307,697</b>	<b>109,886</b>	<b>1,924,819</b>	<b>3,431,954</b>
<b>Property and Equipment</b>					
Buildings	5,636,614	-	-	5,636,614	5,393,050
Furniture and Equipment	578,451	-	-	578,451	586,115
Vehicles	522,214	-	-	522,214	580,113
Finance Lease - Right of Use Assets, Net of Accumulated Amortization	60,620	-	-	60,620	-
	6,797,899	-	-	6,797,899	6,559,278
Less: Accumulated Depreciation	5,988,477	-	-	5,988,477	5,922,674
	809,422	-	-	809,422	636,604
Land	539,503	-	-	539,503	379,335
<b>Total Property and Equipment</b>	<b>1,348,925</b>	<b>-</b>	<b>-</b>	<b>1,348,925</b>	<b>1,015,939</b>
<b>Other Assets</b>					
Capital Credits Receivable	41,924	-	-	41,924	41,043
Investments (Note 3)	-	1,736,632	4,234,613	5,971,245	4,573,777
<b>Total Other Assets</b>	<b>41,924</b>	<b>1,736,632</b>	<b>4,234,613</b>	<b>6,013,169</b>	<b>4,614,820</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,898,085</b>	<b>\$ 2,044,329</b>	<b>\$ 4,344,499</b>	<b>\$ 9,286,913</b>	<b>\$ 9,062,713</b>
<b>Current Liabilities</b>					
Accounts Payable	\$ 275,703	\$ -	\$ -	\$ 275,703	\$ 90,693
Current Portion Lease Payable	10,194	-	-	10,194	-
Unearned Revenue	552,096	2,000,000	-	2,552,096	1,359,480
Funds Held in Trust	314,527	-	-	314,527	303,441
<i>Accrued Expenses:</i>					
Payroll	127,007	-	-	127,007	675,157
Health Insurance (Note 9)	93,756	-	-	93,756	102,195
Payroll Taxes	9,774	-	-	9,774	50,436
Other	17,397	-	-	17,397	24,417
<b>Total Current Liabilities</b>	<b>1,400,454</b>	<b>2,000,000</b>	<b>-</b>	<b>3,400,454</b>	<b>2,605,819</b>
<b>Commitments</b>					
Lease Payable, Less Current Portion (Note 7)	51,044	-	-	51,044	-
<b>Net Assets - Without Donor Restrictions</b>					
Undesignated	158,900	-	-	158,900	264,242
Designated by Board for Operating Reserve	-	44,329	-	44,329	534,422
Designated by Board for Capital Outlay	-	-	4,344,499	4,344,499	4,642,291
Invested in Property and Equipment, Net of Related Debt	1,287,687	-	-	1,287,687	1,015,939
<b>Total Net Assets</b>	<b>1,446,587</b>	<b>44,329</b>	<b>4,344,499</b>	<b>5,835,415</b>	<b>6,456,894</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,898,085</b>	<b>\$ 2,044,329</b>	<b>\$ 4,344,499</b>	<b>\$ 9,286,913</b>	<b>\$ 9,062,713</b>

The accompanying notes are an integral part of this statement.



**BEHAVIOR MANAGEMENT SYSTEMS, INC.**
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**
**FOR THE YEAR ENDED JUNE 30, 2023 WITH MEMORANDUM TOTALS FOR THE YEAR ENDED JUNE 30, 2022**

	----- WITHOUT DONOR RESTRICTIONS -----				
	UNDESIGNATED	BOARD DESIGNATED			
	General	Contingency	Capital and Program Development	Total	2022 Total
<b>Operating Revenues</b>					
CMHS Block Grant & State Contract	\$ 3,914,511	\$ -	\$ -	\$ 3,914,511	\$ 3,814,709
Client Fees - Title XIX	4,115,998	-	-	4,115,998	3,600,214
Client Service Fees	850,482	-	-	850,482	987,268
Other Grants	813,078	-	-	813,078	715,974
Apartment Rentals (Note 8)	163,445	-	-	163,445	165,041
County Revenues	145,953	-	-	145,953	137,800
<b>Total Operating Revenues</b>	<b>10,003,467</b>	<b>-</b>	<b>-</b>	<b>10,003,467</b>	<b>9,421,006</b>
<b>Operating Expenses</b>					
<i>Program Services:</i>					
Care and Residential Services	2,573,541	-	-	2,573,541	2,942,671
Children's Services	2,601,157	-	-	2,601,157	2,597,798
Counseling Services	2,622,731	-	-	2,622,731	1,873,260
Addiction Services	1,004,413	-	-	1,004,413	1,122,863
Impact West	710,826	-	-	710,826	788,264
Other Grants	-	-	-	-	197,659
Apartments	123,989	-	-	123,989	100,119
<i>Supporting Services:</i>					
Administrative	1,584,308	-	4,854	1,589,162	1,683,586
<b>Total Operating Expenses</b>	<b>11,220,965</b>	<b>-</b>	<b>4,854</b>	<b>11,225,819</b>	<b>11,306,220</b>
<b>Operating Income (Loss)</b>	<b>(1,217,498)</b>	<b>-</b>	<b>(4,854)</b>	<b>(1,222,352)</b>	<b>(1,885,214)</b>
<b>Other Revenue (Expense)</b>					
Investment Return	231	24,756	508,130	533,117	(626,409)
Contributions	1,259	-	13,766	15,025	16,135
Nonfinancial Contributions	50,667	-	-	50,667	-
Miscellaneous Income	1,087	-	3,111	4,198	15,855
Insurance Proceeds	-	-	2,266	2,266	23,082
Loss on Disposal of Asset	-	-	(4,400)	(4,400)	(10,239)
<b>Total Other Revenue (Expense)</b>	<b>53,244</b>	<b>24,756</b>	<b>522,873</b>	<b>600,873</b>	<b>(581,576)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(1,164,254)</b>	<b>24,756</b>	<b>518,019</b>	<b>(621,479)</b>	<b>(2,466,790)</b>
<b>Net Assets - Beginning of Year</b>	<b>1,280,181</b>	<b>534,422</b>	<b>4,642,291</b>	<b>6,456,894</b>	<b>8,923,684</b>
Operating Transfers In (Out)	1,330,660	(514,849)	(815,811)	-	-
<b>Net Assets - End of Year</b>	<b>\$ 1,446,587</b>	<b>\$ 44,329</b>	<b>\$ 4,344,499</b>	<b>\$ 5,835,415</b>	<b>\$ 6,456,894</b>

The accompanying notes are an integral part of this statement.

BEHAVIOR MANAGEMENT SYSTEMS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023 WITH MEMORANDUM TOTALS FOR THE YEAR ENDED JUNE 30, 2022

	PROGRAM SERVICES						SUPPORTING SERVICES		
	Care and Residential Services	Counseling Services	Children's Services	Addiction Services	Impact West	Apartments	Administrative	Total	2022 Total
Salaries	\$ 1,723,044	\$ 1,837,213	\$ 1,911,915	\$ 674,417	\$ 500,627	\$ 7,944	\$ 1,036,780	\$ 7,691,940	\$ 7,887,454
Fringe Benefits	395,314	343,413	404,464	130,769	115,290	1,938	226,855	1,618,043	1,919,910
Psychiatric and Other									
Professional Fees	29,200	214,095	50,077	21,570	8,667	18,584	106,197	448,390	354,161
Equipment	138,867	73,521	14,976	18,005	15,963	2,259	69,672	333,263	63,993
Travel and Transportation	89,571	2,782	59,793	13,756	24,654	13	28,816	219,385	191,850
Utilities	37,168	24,558	26,623	29,206	6,583	36,467	18,392	178,997	178,513
Maintenance and Other	33,207	23,830	55,712	22,123	7,664	19,792	14,121	176,449	133,700
Depreciation and Amortization	56,923	8,703	19,496	3,578	14,472	14,023	42,882	160,077	185,827
Supplies	16,680	16,764	10,650	54,899	2,227	-	7,860	109,080	138,492
Telephone	19,749	11,173	22,156	2,293	6,293	1,023	20,879	83,566	102,874
Insurance and Taxes	24,206	7,439	13,299	11,810	4,962	14,000	7,769	83,485	68,062
Buildings and Grounds	8,544	8,068	6,941	20,421	3,358	7,946	6,560	61,838	67,722
Rent - Facilities	83	50,701	4,826	-	-	-	2,298	57,908	10,184
Miscellaneous	985	471	229	1,566	66	-	81	3,398	3,478
<b>Total Expenses</b>	<b>\$ 2,573,541</b>	<b>\$ 2,622,731</b>	<b>\$ 2,601,157</b>	<b>\$ 1,004,413</b>	<b>\$ 710,826</b>	<b>\$ 123,989</b>	<b>\$ 1,589,162</b>	<b>\$ 11,225,819</b>	<b>\$ 11,306,220</b>

The accompanying notes are an integral part of this statement.

**BEHAVIOR MANAGEMENT SYSTEMS, INC.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
<b>Cash Flows from Operating Activities</b>		
Increase (Decrease) in Net Assets	\$ (621,479)	\$ (2,466,790)
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) by Operating Activities:</i>		
Depreciation	157,047	185,827
Amortization	3,030	-
(Gain) Loss on Sale of Property and Equipment	(4,600)	10,239
Unrealized (Gain) Loss on Investments	(378,596)	1,097,897
Realized (Gain) Loss on Investments	12,344	(167,768)
Increase in Capital Credits Receivable	(881)	(2,555)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Accounts Receivable	(232,690)	(4,263)
Prepaid Expenses	(14,644)	(20,401)
Accounts Payable	185,010	(110,306)
Accrued Expenses	(604,271)	303,542
Funds Held in Trust	11,086	13,939
Unearned Revenue	1,192,616	1,338,766
<b>Net Cash Flows Provided by (Used) in Operating Activities</b>	<b>(296,028)</b>	<b>178,127</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sale of Investments	1,197,261	1,479,316
Purchase of Investments	(2,229,479)	(754,091)
Purchases of Property and Equipment	(429,411)	(152,915)
Proceeds from Sale of Property and Equipment	5,600	2,525
<b>Net Cash Flows Provided by (Used) in Investing Activities</b>	<b>(1,456,029)</b>	<b>574,835</b>
<b>Cash Flows Used in Financing Activities</b>		
Principal Payments on Financing Lease Payable	(2,412)	-
<b>Net Cash Flows Provided by (Used) in Financing Activities</b>	<b>(2,412)</b>	<b>577,360</b>
<b>Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash</b>	<b>(1,754,469)</b>	<b>752,962</b>
<b>Cash, Cash Equivalents, and Restricted Cash -- Beginning of Year</b>	<b>2,704,089</b>	<b>1,951,127</b>
<b>Cash, Cash Equivalents, and Restricted Cash -- End of Year</b>	<b>\$ 949,620</b>	<b>\$ 2,704,089</b>
<b>Cash, Cash Equivalents, and Restricted Cash Consists of:</b>		
Cash and Cash Equivalents	\$ 635,093	\$ 2,400,648
Cash - Funds Held in Trust	314,527	303,441
<b>Total Cash, Cash Equivalents, and Restricted Cash</b>	<b>\$ 949,620</b>	<b>\$ 2,704,089</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Nonfinancial Contributions	\$ 50,667	\$ -
Lease Obligations Entered Into	\$ 61,238	\$ -

The accompanying notes are an integral part of this statement.

## **BEHAVIOR MANAGEMENT SYSTEMS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

#### **(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, patient-centered counseling method of motivational interviewing to elicit behavior changes by helping the clients 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 patients.

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 patient'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 patient 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 patients 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 patient's home, school, or other locations 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.

Addiction 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 patient'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 patient in experiencing the hope of recovery, to live successfully in the community, and to reduce the need for repeated or prolonged psychiatric hospitalizations.

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

## **BEHAVIOR MANAGEMENT SYSTEMS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

##### **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 patients 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 of 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 a contingency reserve and capital program development.

*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, 2023 and 2022.

##### **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, 2023 and 2022**

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

**Funds Held in Trust**

Funds held in trust on behalf of patients are held in separate bank accounts and are offset by a liability due to the beneficiaries. Funds held in trust are designated to help individuals with rental assistance and other supportive services to help them move beyond chronic homelessness to employment and stable housing.

**Accounts Receivable**

Accounts receivable consist of uncollateralized amounts due from patients and third-party payors and are recorded at the amount management expects to collect based on prior payment history and negotiated payment amounts. Care is provided regardless of the patient'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 patients are considered past due 90 days after services are provided. Interest is not charged on past-due balances. The following table provides information about changes in accounts receivables for the years ended June 30, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Accounts Receivable, Net, Beginning of Year	<b>\$ 614,372</b>	\$ 610,109
Accounts Receivable, Net, End of Year	<b>\$ 847,062</b>	\$ 614,372

**Property and Equipment**

Property and equipment purchases of \$5,000 or more are capitalized at cost. Land is not a depreciable asset. Assets 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. Interest, dividends, realized gains and losses, unrealized gains and losses, and fees are included in the investment return line in the accompanying Statement of Activities and Changes in Net Assets.

## BEHAVIOR MANAGEMENT SYSTEMS, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

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

##### Unearned Revenue

The Organization receives contract funding from area County Governments, local businesses, and private foundations for services. The Organization may collect fees for services in advance of services being provided. Unearned revenue is recognized as revenue as services are provided to patients under these contracts. The following table provides information about changes in the contract liabilities for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Unearned Revenue, Beginning of Year	\$ 1,359,480	\$ 18,834
Revenue Recognized from Conditional Grants	(775,259)	(18,834)
Grants Received in Advance of Eligibility Criteria Being Met	<u>1,967,875</u>	<u>1,359,480</u>
Unearned Revenue, End of Year	<u>\$ 2,552,096</u>	<u>\$ 1,359,480</u>

##### Revenue Recognition

Service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts, representing transaction price, are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied or generally as patient visits are completed.

Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Organization does not believe it is required to provide additional goods or services. Because performance obligations relate to contracts with a duration of less than one year, the Organization elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) ASC 606-10-50-14(a) and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Organization determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided and reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payers, discounts provided to uninsured and underinsured patients in accordance with policy, and/or implicit price concessions based on the historical collection experience of patient accounts. The Organization determines the transaction prices associated with services provided to patients and residents who have third-party payor coverage based on reimbursement terms per contractual agreements, discount policies, and historical experience. For uninsured patients, the Organization determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on historical collection experience for applicable patient portfolios. Uninsured patient charges are generally based on state contract reimbursement rates per visit.

## **BEHAVIOR MANAGEMENT SYSTEMS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

##### **Revenue Recognition (Continued)**

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to service revenue in the period of the change. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable considerations and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled or are no longer subject to such audits, reviews, and investigations.

The Organization uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for each type of outpatient revenue. Based on the historical collection trends and other analyses, the Organization believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

##### **Operating Income (Loss)**

The Statement of Activities and Changes in Net Assets includes the operating income (loss). Changes in net assets that are excluded from the operating income (loss), consistent with industry practice, include investment return (loss), 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 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, 2023 and 2022.



## **BEHAVIOR MANAGEMENT SYSTEMS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

##### **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. The Organization recognizes grant funds as revenue without donor restrictions as eligible costs under the programs are incurred. Special or one-time grants are recognized as support at the time of the grant. Funds that have been awarded and received, but for which the eligibility requirements have not been met at the end of an accounting period, are recorded as unearned revenue in the Statement of Financial Position. In accordance with the grants, the Organization may use the unexpended funds in future periods as long as the expenses incurred are in compliance with the specific terms as defined in the grants. The grantors may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of noncompliance by the Organization with the terms of the grant.

##### **Expense Allocation**

The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities and Changes in Net Assets 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, 2023 and 2022 were **\$38,505** and \$37,804, 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.

## **BEHAVIOR MANAGEMENT SYSTEMS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

##### **Federal Income Tax (Continued)**

As of June 30, 2023, 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 tax years before 2019. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law, and new authoritative rulings. The Organization believes its 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.

##### **Leases**

Due to the transition to ASU 2016-02, *Leases*, the Organization followed two different accounting policies in 2023 and 2022. In 2022, finance leases were recognized as an expense over the term of the lease. In 2023, the Organization analyzed leases under ASC Topic 842. The Organization has entered into finance leases for equipment. The obligations associated with these leases have been recognized as a liability in the Statement of Financial Position based on future lease payments, discounted by the risk-free rate or the rate implicit in the lease. Lease terms may include the option to extend or terminate certain leases and are reflected in the valuation if it is reasonably certain management will exercise an option to extend or terminate a lease.

The Organization determines if an arrangement is or contains a lease at inception. An election has been made for all asset classes to treat non-lease components, such as maintenance, as a part of the lease contract. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. Lease expense is recognized on a straight-line basis over the lease term. No operating leases exist. The Organization does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

## BEHAVIOR MANAGEMENT SYSTEMS, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

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

##### Accounting Pronouncements Adopted

Effective July 1, 2022, the Organization adopted Accounting Standards Update (ASU) no. 2016-02, Leases, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Organization elected not to restate the comparative period (2022). The Organization also elected not to reassess at adoption (a) expired or existing contracts to determine whether they are or contain a lease, (b) the lease classification of existing leases, or (c) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Organization recognized right-of-use assets of \$63,650 and a lease liability totaling \$63,650 in the statement of financial position as of June 30, 2023. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended June 30, 2023. Comparative disclosures for 2022 are presented in accordance with legacy standards in effect prior to July 1, 2022.

##### Balances for the Year Ended June 30, 2022

The Statement of Changes in Net Assets, and Statement of Functional Expenses for the year ended June 30, 2022 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, 2022 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>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 635,093	\$ 2,400,648
Accounts Receivable	847,062	614,372
Investments	5,971,245	4,573,777
	<u>\$ 7,453,400</u>	<u>\$ 7,588,797</u>

The Organization has a goal to maintain financial assets, which may consist of cash and short-term investments, 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 \$4,344,499 and \$4,642,291 for the years ended June 30, 2023 and 2022, 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 \$44,329 and \$534,422 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022

#### (2) Liquidity and Availability of Financial Assets (Continued)

A tight labor market, turnover, and inflationary pressures have caused an erosion in revenues and increased expenses. Management and the board expect these reserves to be depleted as continued increases in operating costs including wages and occupancy will require use of these funds.

#### (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 the 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. There were no investments valued using level II inputs.

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. There were no investments using level III inputs.

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, 2023.

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, 2023 and 2022

### (3) Investments (Continued)

The following table sets forth carrying amounts and estimated fair values for financial instruments as of June 30, 2023:

	Level I	Level II	Level III	Total
Money Market Funds	\$ 15,551	\$ -	\$ -	\$ 15,551
Federal Home Loan Mortgage (Freddie Mac) (Maturing in 2034)	93	-	-	93
Government National Mortgage (Ginnie Mae) (Maturing in 2028)	480	-	-	480
Moody's AAA Federal Mortgage Assn (Maturing in 2032)	232	-	-	232
Bond Funds	1,819,566	-	-	1,819,566
Stocks	20,742	-	-	20,742
Mutual Funds - Foreign Large Growth	1,023	-	-	1,023
Mutual Funds - Large Cap Balanced	656,724	-	-	656,724
Mutual Funds - Large Cap Growth	945,299	-	-	945,299
Mutual Funds - Equity	1,245,289	-	-	1,245,289
Mutual Funds - Large Cap Growth and Income	1,266,246	-	-	1,266,246
Totals:	\$ 5,971,245	\$ -	\$ -	\$ 5,971,245

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

Investment Return (Loss):	
Interest, Dividends and Capital Gains	\$ 177,064
Realized Loss on Investments	(12,344)
Unrealized Gain on Investments	376,192
Investment Fees	(7,795)
	<u>\$ 533,117</u>

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

	Fair Value	Unrealized Losses	Fair Value	Unrealized Gains
Federal Home Loan Mortgage (Freddie Mac)	\$ 93	\$ (3)	\$ -	\$ -
Government National Mortgage (Ginnie Mae)	480	(13)	-	-
Bond Funds	1,011,703	(63,177)	807,863	31,150
Stocks	1,837	(987)	18,905	6,020
Mutual Funds - Foreign Large Growth	-	-	1,023	63
Mutual Funds - Large Cap Balanced	-	-	656,724	210,994
Mutual Funds - Large Cap Growth	-	-	945,299	363,083
Mutual Funds - Equity	759,052	(68,663)	486,237	46,411
Mutual Funds - Large Cap Growth and Income	-	-	1,266,246	409,832
Totals:	\$ 1,773,165	\$ (132,843)	\$ 4,182,297	\$ 1,067,553

# BEHAVIOR MANAGEMENT SYSTEMS, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

### (3) Investments (Continued)

The following sets forth the duration of the investments in an unrealized loss position at June 30, 2023:

	<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>
Federal Home Loan Mortgage (Freddie Mac)	\$ 93	\$ (3)	\$ -	\$ -
Government National Mortgage (Ginnie Mae)	480	(13)	-	-
Bond Funds	829,082	(37,066)	182,621	(26,111)
Stocks	1,837	(987)	-	-
Mutual Funds - Equity	759,052	(68,663)	-	-
Totals:	<u>\$ 1,590,544</u>	<u>\$ (106,732)</u>	<u>\$ 182,621</u>	<u>\$ (26,111)</u>

The unrealized gains and losses on investments of the financial instruments were primarily a result of market increases consistent with the cyclical nature of the financial markets. The Organization has a diversified portfolio of investments. The Organization's investments in unrealized gain and loss positions 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, 2023.

The following table sets forth carrying amounts and estimated fair values for financial instruments as of June 30, 2022:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Money Market Funds	\$ 14,417	\$ -	\$ -	\$ 14,417
Federal Home Loan Mortgage (Freddie Mac) (Maturing in 2034)	126	-	-	126
Government National Mortgage (Ginnie Mae) (Maturing in 2028)	660	-	-	660
Moody's AAA Federal Mortgage Assn (Maturing in 2032)	291	-	-	291
Bond Funds	336,098	-	-	336,098
Stocks	19,844	-	-	19,844
Mutual Funds - Foreign Large Growth	887	-	-	887
Mutual Funds - Large Cap Balanced	604,738	-	-	604,738
Mutual Funds - Large Cap Growth	779,834	-	-	779,834
Mutual Funds - Equity	1,760,528	-	-	1,760,528
Mutual Funds - Large Cap Growth and Income	1,056,353	-	-	1,056,353
Totals:	<u>\$ 4,573,776</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,573,776</u>

**BEHAVIOR MANAGEMENT SYSTEMS, INC.****NOTES TO FINANCIAL STATEMENTS****June 30, 2023 and 2022****(3) Investments (Continued)**

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

Investment Return (Loss):

Interest, Dividends and Capital Gains	\$ 311,905
Realized Gain on Investments	167,768
Unrealized Loss on Investments	(1,097,897)
Investment Fees	(8,185)
	<u>\$ (626,409)</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)	\$ -	\$ -	\$ 126	\$ 16
Government National Mortgage (Ginnie Mae)	-	-	660	53
Moody's AAA Federal Mortgage Assn	-	-	291	29
Bond Funds	196,958	(11,176)	-	-
Stocks	2,195	(651)	17,648	4,785
Mutual Funds - Foreign Large Growth	887	(60)	-	-
Mutual Funds - Large Cap Balanced	-	-	604,738	169,272
Mutual Funds - Large Cap Growth	1,321	(48)	778,513	228,361
Mutual Funds - Equity	957,803	(150,130)	941,866	83,011
Mutual Funds - Large Cap Growth and Income	-	-	1,056,353	239,954
Totals:	<u>\$ 1,159,164</u>	<u>\$ (162,065)</u>	<u>\$ 3,400,195</u>	<u>\$ 725,481</u>

The following sets forth the duration of the investments in an unrealized loss position at June 30, 2022:

	<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	\$ 2,195	\$ (651)	\$ -	\$ -
Bond Funds	-	-	282,209	(45,925)
Mutual Funds - Large Cap Growth	1,321	(48)	-	-
Mutual Funds - Equity	887	(60)	872,552	(115,381)
Totals:	<u>\$ 4,403</u>	<u>\$ (759)</u>	<u>\$ 1,154,761</u>	<u>\$ (161,306)</u>

**(4) Long-term Debt**

The Organization has available a \$250,000 line of credit. Borrowings under the line-of-credit accrue interest at the prime rate (8.25 percent at June 30, 2023) plus 3.75 percent and are due in full on June 1, 2023. 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, 2023 and 2022.

## BEHAVIOR MANAGEMENT SYSTEMS, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

#### (5) Patient Care Revenue and Accounts Receivable

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

##### Medicaid

Payments for services provided to beneficiaries of Medicaid are based on a flat fee per visit derived from historical cost reports. The fee is adjusted annually based on the medical economic index. Annual adjustments are also made based on a review of the submitted cost report.

Laws and regulations governing Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In the opinion of management, adequate provisions have been made for adjustments that may result from the final determination of amounts earned under the programs.

##### Other

The Organization grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. In addition, some patients 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 Organization has entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Organization under these agreements primarily includes discounts from established charges. The Organization also assesses private pay with the commercial insurance carriers as the significant portion of the private pay revenues are the remaining balances after the claim is paid by the carrier.

A summary of patient service revenue recognized for the years ended June 30 is as follows:

	<u>2023</u>	<u>2022</u>
Family Outreach Services	\$ 2,695,093	\$ 2,564,687
Mainstream Services Division	2,456,877	2,839,444
Counseling Services Division	2,656,093	1,845,626
Other Program Services	<u>2,195,404</u>	<u>2,171,249</u>
Total Patient Service Revenue	<u>\$ 10,003,467</u>	<u>\$ 9,421,006</u>

A summary of patient service revenue recognized by major payor sources for the years ended June 30 is as follows:

	<u>2023</u>		<u>2022</u>	
South Dakota Division of Behavioral Health Contract	\$ 3,914,511	40%	\$ 3,814,709	40%
South Dakota Medicaid (Title XIX)	4,115,998	41%	3,600,214	38%
Private Pay and Private Insurance	850,482	9%	987,268	10%
Other	<u>1,122,476</u>	<u>11%</u>	<u>1,018,815</u>	<u>11%</u>
Total Patient Service Revenue	<u>\$ 10,003,467</u>	<u>100%</u>	<u>\$ 9,421,006</u>	<u>100%</u>



## BEHAVIOR MANAGEMENT SYSTEMS, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

#### Other (Continued)

A summary of receivables from third-party payors and patients as of June 30 is as follows:

	2023		2022	
South Dakota Division of Behavioral Health	\$	322,743	32%	\$ 260,485 34%
South Dakota Medicaid (Title XIX)		237,841	24%	252,660 33%
Private Pay and Private Insurance		155,137	15%	204,306 26%
Other		294,684	29%	55,770 7%
		1,010,405	100%	773,221 100%
Less: Allowance for Contractual Adjustments and Doubtful Accounts		(163,343)		(158,849)
	\$	847,062		\$ 614,372

#### (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 has a discretionary match. The Organization's contributions to the plan (net of employee forfeitures) were **\$97,639** and \$67,845 during the years ended June 30, 2023 and 2022, respectively.

#### (7) Leases

The Organization evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent the Organization's right to use underlying assets for the lease term, and the lease liabilities represent the Organization's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from financing leases, were calculated based on the present value of future lease payments over the lease terms. The Organization has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate, when the implicit rate is not readily available, to discount future lease payments. The Organization has elected to not restate the comparative period (2022), as there were no leases meeting reporting criteria for that period.

The right of use asset and corresponding liability associated with future lease payments at June 30, 2023 are shown below:

	Finance Leases
Right of Use Asset	\$ 60,620
Lease Liability	61,238
Weighted Average Discount Rate	8.82%
Remaining Lease Term (Months)	60

## BEHAVIOR MANAGEMENT SYSTEMS, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

#### (7) Leases (Continued)

##### Lease Costs

Lease costs reported in the statement of functional expenses under miscellaneous and amortization amounted to comprised of the following:

Amortization of Right of Use Asset	\$	3,030
Interest on Lease Liability		1,386
	\$	<u>4,416</u>

##### Future Lease Payments

Future maturities of lease liabilities are presented in the following table for the year ending June 30:

2024	\$	15,192
2025		15,192
2026		15,192
2027		15,192
2028		15,192
Less: Discount		<u>(14,722)</u>
	\$	<u>61,238</u>

Some equipment finance leases require additional payments based on usage of equipment. These variable payments are recognized as operating expenses as they are incurred.

#### (8) Commitments - Short-term Leases

The Organization leases space on a monthly basis which requires monthly payments of \$400. Minimum future lease and rent payments for the year ended June 30, 2023 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, 2023 and 2022 was **\$163,445** and \$165,041, respectively. The cost basis of property and accumulated depreciation being leased at June 30 was as follows:

	<u>2023</u>	<u>2022</u>
Cost Basis	\$ 649,762	\$ 649,762
Less: Accumulated Depreciation	<u>(588,620)</u>	<u>(575,164)</u>
	<u>\$ 61,142</u>	<u>\$ 74,598</u>

## BEHAVIOR MANAGEMENT SYSTEMS, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

#### (9) Contingencies

##### Self-Insured Health Insurance

During the years ended June 30, 2023 and 2022 the Organization's employees were covered by a self-insured health insurance plan. The Organization pays premiums based on the 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 **\$93,756** and \$102,195 as of June 30, 2023 and 2022, respectively.

	Balance at July 1	Claims and Changes in Estimates	Claim Payments	Balance at June 30
2023	\$ 102,195	\$ 1,408,801	\$ 1,417,240	\$ 93,756
2022	77,599	1,492,328	1,467,732	102,195
2021	66,559	1,200,586	1,189,546	77,599

#### (10) In-kind Contributions

During the year ended June 30, 2023, the Organization recognized an in-kind contribution in revenue totaling \$50,667 for the fair market value of building space provided by Pennington County for the operation of the appropriate regional facility, Pivot Point. A corresponding amount is recognized in expense for rent of facilities in counseling services. The value of this contribution was determined based on the fair market value of similar office space per square foot multiplied by the number of square feet occupied. The Organization has executed an annual lease agreement with Pennington County, renewable every 12 months, and is excluded from the right of use assets and commitments Notes 7 and 8. The in-kind lease agreement was effective March 2023.

#### (11) Coronavirus Funds

The Organization received one-time Medicaid funds through Section 9817 of the American Rescue Plan Act of 2021 (ARPA) Federal Medical Assistance Percentage (FMAP) Home and Community-Based Services (HCBS) in the amount of \$1,494,366 during the year ended June 30, 2022. These funds are to be used to address direct care workforce challenges and for equipment and supplies. The funds are to be expended by June 30, 2024 and the Organization is required to report how the funds were expended.

Revenue for eligible expenditures of **\$696,574** and \$213,571 was recognized during the years ended June 30, 2023 and 2022, respectively. The remaining funds of \$584,221 are classified as unearned revenue and will be recognized as eligible expenses are incurred. 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. However, the Organization anticipates meeting the terms of the agreement and utilizing the entirety of the funds provided.

## **BEHAVIOR MANAGEMENT SYSTEMS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

#### **(11) Coronavirus Funds (Continued)**

##### **Provider Relief Funds**

Under the authority of the CARES Act, the U.S. Department of Health and Human Services (HHS) has established various Provider Relief Funds programs to distribute funds to healthcare providers. As of June 30, 2023 and 2022, the Organization received a total of **\$0** and \$358,834, respectively, in Provider Relief Funds. The terms and conditions associated with accepting the funds specifically state they can only be used to prevent, prepare for, and respond to coronavirus healthcare-related expenses or lost revenues that are attributable to the coronavirus. The Organization submitted a report to HHS regarding the use of these funds for eligible purposes in March of 2023 as required under the terms of acceptance of these funds.

#### **(12) Emerging Accounting Standards**

In 2016, the Financial Accounting Standards Board issued updates to ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard impacts the reporting and measurement of credit losses and enhances disclosures. The standard is effective for periods beginning after December 15, 2022. The Organization has not yet implemented this update and is in the process of addressing the effect on the financial statements.

#### **(13) 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.