

**ALCOTT CENTER FOR MENTAL HEALTH SERVICES**

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**FINANCIAL STATEMENTS  
and  
ADDITIONAL INFORMATION**

**JUNE 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors  
Alcott Center for Mental Health Services

### Report on the Financial Statements

We have audited the accompanying financial statements of Alcott Center for Mental Health Services (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2019, and the related Statements of Activities, 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 Alcott Center for Mental Health Services as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT

continued

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### Other Matter

#### *Report on Summarized Comparative Information*

We have previously audited the Alcott Center for Mental Health Services' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2020, on our consideration of Alcott Center for Mental Health Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Alcott Center for Mental Health Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alcott Center for Mental Health Services' internal control over financial reporting and compliance.

*Harrington Group*

Pasadena, California

January 6, 2020

**ALCOTT CENTER FOR MENTAL HEALTH SERVICES**

STATEMENT OF FINANCIAL POSITION

June 30, 2019

With comparative totals at June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	2018
<b>ASSETS</b>				
<b>CURRENT</b>				
Cash	\$ 90,547	\$ 22,341	\$ 112,888	\$ 78,824
Accounts and grants receivable	403,102		403,102	293,983
Prepaid expenses	16,433		16,433	12,240
<b>Total current assets</b>	510,082	22,341	532,423	385,047
<b>NON-CURRENT</b>				
Deposits	21,000		21,000	21,000
Property and equipment, net (Note 4)	301,097		301,097	200,759
<b>Total non-current assets</b>	322,097	-	322,097	221,759
<b>TOTAL ASSETS</b>	\$ 832,179	\$ 22,341	\$ 854,520	\$ 606,806
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
<b>CURRENT</b>				
Accounts payable	\$ 58,663	\$ -	\$ 58,663	\$ 123,090
Accrued liabilities (Note 5)	112,502		112,502	98,469
Line of credit (Note 6)			-	-
<b>Total current liabilities</b>	171,165	-	171,165	221,559
<b>NON-CURRENT</b>				
Accrued liabilities (Note 5)	275,370		275,370	263,912
Notes payable (Note 7)	57,326		57,326	21,696
<b>Total non-current liabilities</b>	332,696	-	332,696	285,608
<b>TOTAL LIABILITIES</b>	503,861	-	503,861	507,167
<b>NET ASSETS</b>				
Without donor restrictions	328,318		328,318	76,898
With donor restrictions (Note 9)		22,341	22,341	22,741
<b>TOTAL NET ASSETS</b>	328,318	22,341	350,659	99,639
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 832,179	\$ 22,341	\$ 854,520	\$ 606,806

The accompanying notes are an integral part of these financial statements.

**ALCOTT CENTER FOR MENTAL HEALTH SERVICES**

STATEMENT OF ACTIVITIES  
For the year ended June 30, 2019  
With comparative totals for the year ended June 30, 2018

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2019</b>	<b>2018</b>
<b>REVENUE AND SUPPORT</b>				
Government contract revenue	\$ 3,073,760	\$ -	\$ 3,073,760	\$ 2,164,035
Contributions	191,369	22,500	213,869	189,655
Special event revenue, net of expenses of \$8,802	33,934		33,934	-
Contributions - in kind (Note 10)	21,615		21,615	2,805
Other revenue	20,240		20,240	25,974
Net assets released from restrictions (Note 9)	22,900	(22,900)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>3,363,818</b>	<b>(400)</b>	<b>3,363,418</b>	<b>2,382,469</b>
<b>EXPENSES</b>				
Program services	2,811,062		2,811,062	2,085,484
Support services	301,336		301,336	275,578
<b>TOTAL EXPENSES</b>	<b>3,112,398</b>	<b>-</b>	<b>3,112,398</b>	<b>2,361,062</b>
<b>CHANGE IN NET ASSETS BEFORE CONTRACT SETTLEMENTS</b>	<b>251,420</b>	<b>(400)</b>	<b>251,020</b>	<b>21,407</b>
Contract settlements (expense) - prior years			-	(184,000)
<b>CHANGE IN NET ASSETS</b>	<b>251,420</b>	<b>(400)</b>	<b>251,020</b>	<b>(162,593)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>76,898</b>	<b>22,741</b>	<b>99,639</b>	<b>262,232</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 328,318</b>	<b>\$ 22,341</b>	<b>\$ 350,659</b>	<b>\$ 99,639</b>

The accompanying notes are an integral part of these financial statements.

**ALCOTT CENTER FOR MENTAL HEALTH SERVICES**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

	Program Services			Total Program Services
	Mental Health	Housing	Other	
Salaries and wages	\$ 1,228,781	\$ 215,422	\$ 23,764	\$ 1,467,967
Benefits and payroll taxes	247,666	42,744	4,530	294,940
Total personnel expenses	1,476,447	258,166	28,294	1,762,907
Professional fees and contract services	313,267	3,711	6,210	323,188
Program supplies and activities	244,272	11,708	931	256,911
Rent	186,808	16,082	323	203,213
Office expenses	36,221	13,559	166	49,946
Depreciation	36,423	5,953		42,376
Auto	21,529	13,069		34,598
Repairs and maintenance	30,025	3,824		33,849
Insurance	22,149	3,791	448	26,388
Taxes and licenses	23,647	214		23,861
In-kind expenses	6,615			6,615
Utilities	15,175	973		16,148
Telephone	13,049	2,773		15,822
Food	5,491	193	1,698	7,382
Dues and subscriptions	4,718			4,718
Miscellaneous	2,900	154		3,054
Postage	66	20		86
Fees and penalties				-
Capital assets (paid for by government)				-
Fundraising expenses				-
<b>TOTAL 2019 FUNCTIONAL EXPENSES</b>	<b>\$ 2,438,802</b>	<b>\$ 334,190</b>	<b>\$ 38,070</b>	<b>\$ 2,811,062</b>

The accompanying notes are an integral part of these financial statements.

**ALCOTT CENTER FOR MENTAL HEALTH SERVICES**

STATEMENT OF FUNCTIONAL EXPENSES  
 For the year ended June 30, 2019  
 With comparative totals for the year ended June 30, 2018  
 continued

	Total Program Services	Support Services		Total Support Services	Total Expenses	
		General and Administrative	Fundraising		2019	2018
Salaries and wages	\$ 1,467,967	\$ 134,304	\$ 54,136	\$ 188,440	\$ 1,656,407	\$ 1,130,213
Benefits and payroll taxes	294,940	26,423	7,090	33,513	328,453	222,423
Total personnel expenses	1,762,907	160,727	61,226	221,953	1,984,860	1,352,636
Professional fees and contract services	323,188	18,601	1,569	20,170	343,358	364,125
Program supplies and activities	256,911		42	42	256,953	153,634
Rent	203,213	4,683	2,589	7,272	210,485	216,379
Office expenses	49,946	3,759	16,991	20,750	70,696	54,597
Depreciation	42,376	1,500	1,050	2,550	44,926	9,504
Auto	34,598	311	43	354	34,952	11,957
Repairs and maintenance	33,849	467	262	729	34,578	30,210
Insurance	26,388	2,404	977	3,381	29,769	21,731
Taxes and licenses	23,861	955	29	984	24,845	20,086
In-kind expenses	6,615		15,000	15,000	21,615	2,805
Utilities	16,148	422	241	663	16,811	15,312
Telephone	15,822	583	112	695	16,517	16,824
Food	7,382	1,410	262	1,672	9,054	6,024
Dues and subscriptions	4,718		246	246	4,964	4,203
Miscellaneous	3,054	1,221	199	1,420	4,474	4,932
Postage	86	578	1,943	2,521	2,607	2,110
Fees and penalties	-	934		934	934	266
Capital assets (paid for by government)	-				-	73,707
Fundraising expenses	-				-	20
<b>TOTAL 2019 FUNCTIONAL EXPENSES</b>	<b>\$ 2,811,062</b>	<b>\$ 198,555</b>	<b>\$ 102,781</b>	<b>\$ 301,336</b>	<b>\$ 3,112,398</b>	
<b>TOTAL 2018 FUNCTIONAL EXPENSES</b>	<b>\$ 2,085,484</b>	<b>\$ 204,298</b>	<b>\$ 71,280</b>	<b>\$ 275,578</b>		<b>\$ 2,361,062</b>

The accompanying notes are an integral part of these financial statements.



**ALCOTT CENTER FOR MENTAL HEALTH SERVICES**

STATEMENT OF CASH FLOWS

For the year ended June 30, 2019

With comparative totals for the year ended June 30, 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 251,020	\$ (162,593)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	44,926	9,504
(Increase) decrease in operating assets:		
Accounts and grants receivable	(109,119)	(191,568)
Pledge receivable	-	1,000
Prepaid expenses	(4,193)	(848)
Deposits	-	5,000
Increase (decrease) in operating liabilities:		
Accounts payable	(64,427)	75,382
Accrued liabilities	25,491	168,874
	<u>143,698</u>	<u>(95,249)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	<u>(101,001)</u>	<u>(132,979)</u>
	<u>(101,001)</u>	<u>(132,979)</u>
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New borrowings on line of credit	32,000	-
Payments on line of credit	(32,000)	-
Payments on notes payable	<u>(8,633)</u>	<u>(1,515)</u>
	<u>(8,633)</u>	<u>(1,515)</u>
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>	34,064	(229,743)
<b>CASH, BEGINNING OF YEAR</b>	<u>78,824</u>	<u>308,567</u>
<b>CASH, END OF YEAR</b>	<u>\$ 112,888</u>	<u>\$ 78,824</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Non-cash investing and financing transactions:		
Purchase vehicle with a notes payable	<u>\$ 44,263</u>	<u>\$ 23,211</u>
Purchase of property and equipment with government funds	<u>\$ -</u>	<u>\$ 73,707</u>
Operating activities reflects interest paid of:	<u>\$ -</u>	<u>\$ 68</u>

The accompanying notes are an integral part of these financial statements.

# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 1. **Organization**

The Alcott Center for Mental Health Services (“Alcott”) is a community-based nonprofit organization that has provided quality community mental health services to thousands of people with mental health issues since 1979. Located at multiple sites in West Los Angeles, with 40 years of business experience, the agency provides a comprehensive range of outpatient mental health treatments, housing services, case management, and psychoeducation, serving adults of all ages, their families, and the community.

Alcott aims to create a safe environment promoting individual growth, recovery, independence, and personal empowerment, addressing the whole person’s needs. Services include medication support, therapy, rehabilitation, case management, housing assistance, crisis intervention, integrated mental health and substance abuse treatment, opportunities for socialization, peer lead activities, a creative arts program, family support and education.

The individualized array of services offered allows individuals to remain part of the Alcott community as their immediate mental health needs change. Expected outcomes include housing and housing retention, an increased understanding of mental health, relapse factors, improved problem solving, more meaningful relationships, an instillation of hope, increased sense of self-worth, and increased independence. Alcott has developed a vibrant and welcoming community. Through its programs, Alcott is committed to providing information and services to reduce the impact and stigma of mental illness and homelessness.

### 2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

#### **Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting.

#### **Net Assets**

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

**Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

**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.

#### **Accounts and Grants Receivable**

Accounts and grants receivable balances are primarily for government contracts and are periodically reviewed for collectibility. Accounts and grants receivable as of June 30, 2019 are deemed collectible. Therefore, no allowance for doubtful accounts has been recorded.

#### **Contributions and Pledges Receivable**

Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included as support until the conditions are substantially met.

#### **Concentration of Credit Risks**

Alcott places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Alcott has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2019 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of Alcott's receivables consist of earned fees from contract programs granted by governmental agencies and services funded by grants.

Alcott receives the majority of its revenue and support from the Los Angeles County Department of Mental Health ("DMH") and Department of Health Services ("DHS"). During the year ended June 30, 2019, Alcott recognized DMH revenue of \$2,587,443 and DHS revenue of \$486,317. Ninety-one percent of its total revenue is from these two sources. Alcott expects its relationship with DMH and DHS to continue.

continued

# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### **Fair Value Measurements**

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Alcott is required to measure non-cash contributions and pledges receivable at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relates to each element.

#### **Property and Equipment**

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred.

Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year. Property and equipment purchased with government contract funds are recorded at cost when purchased, and a correspondingly liability is recorded, since these items are deemed the property of the funding agency. When the property is no longer in use, it can revert back to the funding agency, or if the property is sold, the funding agency determines the use of the proceeds.

#### **Revenue Recognition**

Revenue from Alcott's cost reimbursement contracts is recognized as costs are incurred in the performance of the contract. Revenue from Alcott's fee-for-service contracts is recognized when the service is delivered in accordance with the contract terms. Under its mental health contract, which is a cost reimbursement contract, Alcott is also restricted to certain budgeted program maximums. Alcott evaluates such restrictions and recognizes its earned amounts based on costs incurred capped at the respective program maximums.

#### **Donated Materials and Services**

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended June 30, 2019, Alcott recorded \$21,615 for donated materials.

continued

# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### **Income Taxes**

Alcott is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Alcott in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Alcott's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

#### **Functional Allocation of Expenses**

Costs of providing Alcott's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Alcott uses square footage and payroll hours to allocate indirect costs.

#### **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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

#### **Comparative Totals**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Alcott's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### Recently Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. Alcott's financial statements for the year ended June 30, 2019 are presented in accordance with ASU 2016-14.

#### Subsequent Events

Management has evaluated subsequent events through January 6, 2020, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

### 3. Liquidity and Availability of Resources

The organization has \$488,324 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. The organization has a committed line of credit in the amount of \$50,000 which it could draw upon in the event of an unanticipated liquidity need.

# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 3. Liquidity and Availability of Resources, continued

As of June 30, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet its operational cash flow needs:

Cash and cash equivalents	\$112,888
Accounts and grants receivable	<u>403,102</u>
Financial assets at year-end	515,990
Less those unavailable for general expenditure within one year:	
net assets with donor restriction	(22,341)
client trust accounts	<u>(5,325)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$488,324</u>

The organization also has in place fee-for-service government contracts which could produce approximately \$1,899,550 in earned revenue to cover general expenditures within the next year. In addition, there are cost reimbursement government contracts in place which could produce 3,016,081 in earned revenue to also cover general expenditures within the next year.

### 4. Property and Equipment

Property and equipment at June 30, 2019 consist of the following:

Leasehold improvements	\$ 370,336
Vehicles	95,096
Equipment and furnishings	71,445
Government owned assets-leasehold improvements	<u>61,423</u>
	598,300
Less: accumulated depreciation	<u>(235,780)</u>
	362,520
Less: government owned asset liability (for right of reversion)	<u>(61,423)</u>
Total property and equipment, net	<u>\$ 301,097</u>

Depreciation expense, on owned assets, for the year ended June 30, 2019 was \$44,926.

# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 5. Accrued Liabilities

Accrued liabilities at June 30, 2019 consist of the following:

Accrued vacation	\$ 66,830
Accrued payroll	23,359
Other liabilities	16,988
Due to clients	<u>5,325</u>
Current liabilities	112,502
DMH prior year settlements – liability (non-current) – See Note 8	<u>275,370</u>
	<u>\$387,872</u>

The accrued vacation balance above is classified as a short-term liability in accordance with generally accepted accounting principles. However, the average balance of accrued vacation has been \$35,000 to \$60,000 each year (as vacation taken is offset with new vacation earned). As a result, Alcott does not expect this entire short-term liability balance to be paid out in the next fiscal year.

### 6. Line of credit

The organization has a \$50,000 line of credit with a bank, UCC secured, at an interest rate equal to Wall Street Journal Prime West Coast Edition plus 1.00% with a maturity date in May 2020. Alcott had no amount outstanding at June 30, 2019.

### 7. Notes Payable

Note payable at June 30, 2019 consist of the following:

Note payable to corporation, secured by a vehicle, bearing simple interest at 1.9%, monthly payments of \$441, due November 2023.	\$21,962
Note payable to corporation, secured by a vehicle, bearing simple interest at 5.59%, monthly payments of \$366, due April 2024.	18,241
Note payable to corporation, secured by a vehicle, bearing simple interest at .9%, monthly payments of \$396, due February 2023.	<u>17,123</u>
	<u>\$57,326</u>

continued



# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 7. Notes Payable, continued

Maturities for the notes payable are as follows:

<u>Year ending June 30,</u>	
2020	\$12,972
2021	13,305
2022	13,652
2023	12,429
2024	<u>4,968</u>
	<u>\$57,326</u>

### 8. Commitments and Contingencies

#### Obligations Under Operating Leases

Alcott leases various facilities under operating leases with various terms. Future minimum payments, by year, and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ending June 30,</u>	
2020	\$ 320,204
2021	380,124
2022	194,917
2023	172,452
2024	175,992
Thereafter	<u>43,172</u>
	<u>\$1,286,861</u>

Rent expense for the year ended June 30, 2019 was \$210,485. The above minimum payments include lease obligations for a new facility lease which was signed in August 2019.

#### Contracts

Alcott's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits often cannot be reasonably estimated. Under the DMH contract, final contract settlements often take five or more years, with initial desk settlements in many cases not available for two or three years after funding. Such settlements, when amounts become known, are evaluated against the reserve and the corresponding receivable and/or payable for each contract year, and differences are shown as "Contract settlements – prior year" on the Statement of Activities.

continued

# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 8. Commitments and Contingencies continued

In the fiscal year ended June 30, 2018, Alcott received a notice from DMH which indicated that Alcott had a liability due of approximately \$237,000 related to the settlements of its 2007-2008 through 2014-2015 contracts. Initially, Alcott agreed to a seventy-two-month (six-year) payment plan of that amount, on which monthly payments were expected to begin in Alcott's 2018-19 fiscal year. As of the date of these financial statements, Alcott had not yet been required to make a payment, and Alcott was in negotiation with DMH to potentially relieve some portion of the liability through in-kind provisions. The \$237,000 is included in the \$275,370 shown above and that amount also reflects additional estimated liabilities for the unsettled years of 2015-2016 through 2017-2018. Given the aging of the \$275,370 liability, it is not reflected as a current liability in these financial statements.

### 9. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 consist of the following:

Health neighbor program	\$20,000
SoRo Fest expense and outreach	<u>2,341</u>
	<u>\$22,341</u>

During the year ended June 30, 2019, Alcott released \$22,900 from restrictions, \$2,900 for program restrictions and \$20,000 for time restrictions.

### 10. Fair Value Measurements

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated materials	<u>\$ -</u>	<u>\$21,615</u>	<u>\$ -</u>	<u>\$21,615</u>

The fair value of donated materials has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

### 11. Employee Benefit Plan

Alcott has a defined contribution retirement plan available to substantially all employees who have completed three months of service and are at least twenty-one years of age, as defined. Employees may contribute any whole percentage of annual compensation provided that it does not exceed maximum amounts as permitted by law. Alcott made matching contributions equal to the first 3% of the employee contributions. Employer contributions under this plan for the year ended June 30, 2019 were \$31,416.

**ADDITIONAL INFORMATION**

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**Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

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To the Board of Directors  
Alcott Center for Mental Health Services

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Alcott Center for Mental Health Services ("Alcott") (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2019, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Alcott's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alcott's internal control. Accordingly, we do not express an opinion on the effectiveness of Alcott's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Alcott's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

continued

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**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Harrington Group*

Pasadena, California

January 6, 2020