

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

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, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Summarized Comparative Information

We have previously audited the Alcott Center for Mental Health Services' 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 6, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2021, 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

July 12, 2021

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

STATEMENT OF FINANCIAL POSITION

June 30, 2020

With comparative totals at June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	2020	2019
ASSETS				
CURRENT				
Cash	\$ 651,854	\$ 178,592	\$ 830,446	\$ 112,888
Accounts and grants receivable	772,537		772,537	403,102
Pledges receivable (Note 2)	31,774		31,774	-
Prepaid expenses	15,132		15,132	16,433
Total current assets	1,471,297	178,592	1,649,889	532,423
NON-CURRENT				
Deposits	46,000		46,000	21,000
Property and equipment, net (Note 4)	247,046		247,046	301,097
Total non-current assets	293,046	-	293,046	322,097
TOTAL ASSETS	\$ 1,764,343	\$ 178,592	\$ 1,942,935	\$ 854,520
LIABILITIES AND NET ASSETS				
LIABILITIES				
CURRENT				
Accounts payable	\$ 72,976	\$ -	\$ 72,976	\$ 58,663
Accrued liabilities (Note 5)	240,357		240,357	112,502
Notes payable (Note 6)	14,430		14,430	12,972
Total current liabilities	327,763	-	327,763	184,137
NON-CURRENT				
Accrued liabilities (Note 5)	275,370		275,370	275,370
Notes payable (Note 6)	28,848		28,848	44,354
Refundable government grant (Note 7)	605,492		605,492	-
Total non-current liabilities	909,710	-	909,710	319,724
TOTAL LIABILITIES	1,237,473	-	1,237,473	503,861
NET ASSETS				
Without donor restrictions	526,870		526,870	328,318
With donor restrictions (Note 9)	178,592	178,592	178,592	22,341
TOTAL NET ASSETS	526,870	178,592	705,462	350,659
TOTAL LIABILITIES AND NET ASSETS	\$ 1,764,343	\$ 178,592	\$ 1,942,935	\$ 854,520

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, 2020
 With comparative totals for the year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT				
Government contract revenue	\$ -	\$ 5,473,268	\$ 5,473,268	\$ 3,073,760
Contributions	88,963	197,000	285,963	213,869
Other revenue	19,246		19,246	20,240
Contributions - in kind			-	21,615
Special event loss, net of expenses of \$7,130	(6,767)		(6,767)	33,934
Net assets released from restrictions (Note 9)	5,514,017	(5,514,017)	-	-
TOTAL REVENUE AND SUPPORT	<u>5,615,459</u>	<u>156,251</u>	<u>5,771,710</u>	<u>3,363,418</u>
EXPENSES				
Program services	4,772,442		4,772,442	2,811,062
Support services	644,465		644,465	301,336
TOTAL EXPENSES	<u>5,416,907</u>	<u>-</u>	<u>5,416,907</u>	<u>3,112,398</u>
CHANGE IN NET ASSETS	198,552	156,251	354,803	251,020
NET ASSETS, BEGINNING OF YEAR	<u>328,318</u>	<u>22,341</u>	<u>350,659</u>	<u>99,639</u>
NET ASSETS, END OF YEAR	<u>\$ 526,870</u>	<u>\$ 178,592</u>	<u>\$ 705,462</u>	<u>\$ 350,659</u>

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, 2020

	Program Services			Total Program Services
	Mental Health	Housing	Other	
Salaries and wages	\$ 1,427,735	\$ 1,206,325	\$ 15,845	\$ 2,649,905
Benefits and payroll taxes	262,511	229,219	4,436	496,166
Total personnel expenses	1,690,246	1,435,544	20,281	3,146,071
Professional fees and contract services	334,091	85,714	4,027	423,832
Rent	219,815	132,320		352,135
Program supplies and activities	280,464	51,365	99	331,928
Office expenses	32,871	120,395	1,055	154,321
Food	4,478	71,232	567	76,277
Auto	19,563	38,749		58,312
Depreciation	48,468	3,658		52,126
Repairs and maintenance	22,896	19,443		42,339
Utilities	11,904	26,640		38,544
Telephone	16,439	13,360		29,799
Insurance	11,039	7,204	184	18,427
Miscellaneous	11,069	6,406		17,475
Taxes and licenses	25,340			25,340
Dues and subscriptions	5,231	104		5,335
Postage	54	127		181
Fees and penalties				-
In-kind expenses				-
TOTAL 2020 FUNCTIONAL EXPENSES	\$ 2,733,968	\$ 2,012,261	\$ 26,213	\$ 4,772,442

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, 2020
 With comparative totals for the year ended June 30, 2019
 continued

	Total Program Services	Support Services		Total Support Services	Total Expenses	
		General and Administrative	Fundraising		2020	2019
Salaries and wages	\$ 2,649,905	\$ 252,093	\$ 66,528	\$ 318,621	\$ 2,968,526	\$ 1,656,407
Benefits and payroll taxes	496,166	70,635	12,373	83,008	579,174	328,453
Total personnel expenses	3,146,071	322,728	78,901	401,629	3,547,700	1,984,860
Professional fees and contract services	423,832	55,316	11,622	66,938	490,770	343,358
Rent	352,135	18,846	4,289	23,135	375,270	210,485
Program supplies and activities	331,928	3,180	11	3,191	335,119	256,953
Office expenses	154,321	62,065	13,571	75,636	229,957	70,696
Food	76,277	913	142	1,055	77,332	9,054
Auto	58,312	2,489	4	2,493	60,805	34,952
Depreciation	52,126	1,925		1,925	54,051	44,926
Repairs and maintenance	42,339	9,458	320	9,778	52,117	34,578
Utilities	38,544	3,435	774	4,209	42,753	16,811
Telephone	29,799	8,406	464	8,870	38,669	16,517
Insurance	18,427	17,142	528	17,670	36,097	29,769
Miscellaneous	17,475	3,632	142	3,774	21,249	4,474
Taxes and licenses	25,340	4,502	26	4,528	29,868	24,845
Dues and subscriptions	5,335	17,641	574	18,215	23,550	4,964
Postage	181	795	14	809	990	2,607
Fees and penalties	-	610		610	610	934
In-kind expenses	-			-	-	21,615
TOTAL 2020 FUNCTIONAL EXPENSES	\$ 4,772,442	\$ 533,083	\$ 111,382	\$ 644,465	\$ 5,416,907	
TOTAL 2019 FUNCTIONAL EXPENSES	\$ 2,811,062	\$ 198,555	\$ 102,781	\$ 301,336		\$ 3,112,398

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, 2020

With comparative totals for the year ended June 30, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 354,803	\$ 251,020
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	54,051	44,926
(Increase) decrease in operating assets:		
Accounts and grants receivable	(369,435)	(109,119)
Pledge receivable	(31,774)	-
Prepaid expenses	1,301	(4,193)
Deposits	(25,000)	-
Increase (decrease) in operating liabilities:		
Accounts payable	14,313	(64,427)
Accrued liabilities	127,855	25,491
NET CASH PROVIDED BY OPERATING ACTIVITIES	126,114	143,698
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(101,001)
NET CASH (USED) BY INVESTING ACTIVITIES	-	(101,001)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New borrowings on line of credit	75,000	32,000
Payments on line of credit	(75,000)	(32,000)
Payments on notes payable	(14,048)	(8,633)
Refundable government advances - paycheck protection program	605,492	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	591,444	(8,633)
NET INCREASE IN CASH	717,558	34,064
CASH, BEGINNING OF YEAR	112,888	78,824
CASH, END OF YEAR	\$ 830,446	\$ 112,888
SUPPLEMENTAL DISCLOSURE:		
Non-cash investing and financing transactions:		
Purchased vehicles with notes payable	\$ -	\$ 44,263

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

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

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

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, 2020 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, 2020, 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, 2020, Alcott recognized DMH revenue of \$3,000,737 and DHS revenue of \$2,472,529. Ninety-five 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

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 corresponding 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, 2020, Alcott did receive donated materials or services which met the criteria for recognition.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

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, 2019, from which the summarized information was derived.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes, or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expanded disclosures about revenue. Alcott has implemented Topic 606 and have adjusted the presentation in these financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Alcott has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Analysis of various provisions of these standards resulted in no significant changes in the way Alcott recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Subsequent Events

Management has evaluated subsequent events through July 12, 2021, 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

Alcott has \$1,445,840 of financial assets available within one year of the statement of financial position 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 statement of financial position date.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources, continued

As of June 30, 2020, the following financial assets could readily be made available within one year of the statement of financial position date to meet its operational cash flow needs:

Cash	\$ 830,446
Accounts and grants receivable	<u>804,311</u>
Financial assets at year-end	1,634,757
Less assets unavailable for general expenditure within one year:	
Net assets with donor restriction	(178,592)
Client trust accounts	<u>(10,325)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$1,445,840</u>

Alcott also has in place fee-for-service government contracts which could produce approximately \$4,956,000 in earned revenue to cover general expenditures within the next year. In addition, there are cost reimbursement government contracts in place which could produce \$3,467,509 in earned revenue to also cover general expenditures within the next year.

4. Property and Equipment

Property and equipment at June 30, 2020 consist of the following:

Leasehold improvements	\$ 370,336
Vehicles	95,096
Equipment and furnishings	71,445
Government owned assets-leasehold improvements	<u>46,681</u>
	583,558
Less: accumulated depreciation	<u>(289,831)</u>
	293,727
Less: government owned asset liability (for right of reversion)	<u>(46,681)</u>
Total property and equipment, net	<u>\$ 247,046</u>

Depreciation expense, on owned assets, for the year ended June 30, 2020 was \$54,051.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

5. Accrued Liabilities

Accrued liabilities at June 30, 2020 consist of the following:

Accrued vacation	\$113,154
Accrued payroll	49,830
Other liabilities	67,048
Due to clients	<u>10,325</u>
Current liabilities	240,357
DMH prior year settlements – liability (non-current) – See Note 9	<u>275,370</u>
	<u>\$515,727</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. Notes Payable

Notes payable at June 30, 2020 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.	\$16,674
Note payable to corporation, secured by a vehicle, bearing simple interest at 5.59%, monthly payments of \$366, due April 2024.	14,230
Note payable to corporation, secured by a vehicle, bearing simple interest at .9%, monthly payments of \$396, due February 2023.	<u>12,374</u>
	<u>\$43,278</u>

Maturities for the notes payable are as follows:

<u>Year ending June 30,</u>	
2021	\$14,430
2022	14,430
2023	13,365
2024	<u>1,053</u>
	<u>\$43,278</u>

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

7. Refundable Government Grant - Paycheck Protection Program

In May 2020, Alcott received a forgivable loan in the amount of \$605,492 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for advances to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The refundable government loans are forgivable after a period of up to twenty-four weeks (the “covered period”) as long as the borrower uses the proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its full-time equivalency levels. The amount of forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period.

The unforgiven portion of the PPP is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. Alcott intends to use the proceeds for purposes consistent with the PPP. Alcott currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

Alcott accounted for the funding as a conditional grant under FASB ASC 958-605. As of June 30, 2020, Alcott had not met the conditions of the grant and therefore did not earn any of the PPP funding. That amount is included as a liability in the Statement of Financial Position as a “Refundable Government Grant”.

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>	
2021	\$ 574,933
2022	245,919
2023	227,589
2024	180,423
2025	<u>22,461</u>
	<u>\$1,251,325</u>

Rent expense for the year ended June 30, 2020 was \$377,967. The above minimum payments include lease obligations for a new facility lease which was signed in June 2020.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies, continued

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.

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 in "Accrued Liabilities" 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.

Impact of COVID-19 Virus

Following the Los Angeles County, and State "Safer at Home" orders and protocols, Alcott has continued to conduct business as usual with certain modifications. The long-term, financial impact of the COVID-19 virus on Alcott cannot be foreseen at this time and is not reflected in these financial statements.

9. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2020 consist of the following:

Van and workspace equipment	\$ 59,251
Capacity building	55,000
Safe at work preparation	50,000
Art classes and supplies	12,000
SoRo Fest expense and outreach	<u>2,341</u>
	<u>\$178,592</u>

During the year ended June 30, 2020, Alcott released \$5,514,017 from program restrictions, which includes restricted governmental funding.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

10. 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, 2020 were \$28,121.

ADDITIONAL INFORMATION

**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***

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 (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2020, 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 July 12, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Alcott Center for Mental Health Services' internal control over financial reporting (internal control) as a basis for designing 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 Center for Mental Health Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Alcott Center for Mental Health Services' 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 Center for Mental Health Services' 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 financial statements. 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

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

July 12, 2021