

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Alcott Center for Mental Health Services

Opinion

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, 2022, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alcott Center for Mental Health Services as of June 30, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Alcott Center for Mental Health Services and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Alcott Center for Mental Health Services' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards and *Government Auditing Standards* 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.

INDEPENDENT AUDITORS' REPORT

continued

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, 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 Alcott Center for Mental Health Services' 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 Alcott Center for Mental Health Services' 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

Report on Summarized Comparative Information

We have previously audited Alcott Center for Mental Health Services' 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 9, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, 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 September 6, 2023, 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
September 6, 2023

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

STATEMENT OF FINANCIAL POSITION

June 30, 2022

With comparative totals at June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	2022	2021
ASSETS				
CURRENT				
Cash	\$ 1,283,718	\$ 75,433	\$ 1,359,151	\$ 862,115
Accounts and grants receivable	1,347,306		1,347,306	970,447
Pledges receivable (Note 2)			-	1,650,274
Prepaid expenses	32,130		32,130	13,902
Investments (Note 4)	1,552,175		1,552,175	-
Total current assets	4,215,329	75,433	4,290,762	3,496,738
NON-CURRENT				
Deposits	49,200		49,200	46,000
Property and equipment, net (Note 5)	189,043		189,043	255,417
Total non-current assets	238,243	-	238,243	301,417
TOTAL ASSETS	\$ 4,453,572	\$ 75,433	\$ 4,529,005	\$ 3,798,155
LIABILITIES AND NET ASSETS				
LIABILITIES				
CURRENT				
Accounts payable	\$ 144,874	\$ -	\$ 144,874	\$ 45,864
Accrued liabilities (Note 6)	375,981		375,981	350,669
Notes payable (Note 7)	12,556		12,556	13,652
Total current liabilities	533,411	-	533,411	410,185
NON-CURRENT				
Accrued liabilities			-	275,370
Notes payable (Note 7)	3,265		3,265	15,197
Refundable government grant (Note 8)			-	605,492
Total non-current liabilities	3,265	-	3,265	896,059
TOTAL LIABILITIES	536,676	-	536,676	1,306,244
NET ASSETS				
Without donor restrictions	3,916,896		3,916,896	2,491,911
With donor restrictions (Note 11)		75,433	75,433	-
TOTAL NET ASSETS	3,916,896	75,433	3,992,329	2,491,911
TOTAL LIABILITIES AND NET ASSETS	\$ 4,453,572	\$ 75,433	\$ 4,529,005	\$ 3,798,155

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, 2022

With comparative totals for the year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	2022	2021
REVENUE AND SUPPORT				
Government contract revenue	\$ 10,306,398	\$ -	\$ 10,306,398	\$ 8,056,132
Contributions	771,373	95,000	866,373	1,879,068
Donated materials (Note 12)	171,892		171,892	98,760
Other revenue	44,165		44,165	23,758
Special event income			-	6,500
Investment (loss) income, net	(357,135)		(357,135)	641
Net assets released from program restrictions	19,567	(19,567)	-	-
TOTAL REVENUE AND SUPPORT	10,956,260	75,433	11,031,693	10,064,859
EXPENSES				
Program services	8,622,334		8,622,334	7,274,177
Support services	1,681,770		1,681,770	1,004,233
TOTAL EXPENSES	10,304,104	-	10,304,104	8,278,410
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	652,156	75,433	727,589	1,786,449
OTHER CHANGES				
Forgiveness of paycheck protection program loan (Note 8)	605,492		605,492	-
Prior year Department of Mental Health (DMH) contract settlements (Note 10)	167,337		167,337	-
TOTAL OTHER CHANGES	772,829	-	772,829	-
CHANGE IN NET ASSETS	1,424,985	75,433	1,500,418	1,786,449
NET ASSETS, BEGINNING OF YEAR	2,491,911	-	2,491,911	705,462
NET ASSETS, END OF YEAR	\$ 3,916,896	\$ 75,433	\$ 3,992,329	\$ 2,491,911

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, 2022

With comparative totals for the year ended June 30, 2021

	<u>Mental Health</u>	<u>Housing</u>	<u>Health Neighborhood Program Services</u>	<u>Total Program Services</u>
Salaries and wages	\$ 1,167,245	\$ 3,592,472	\$ 1,118	\$ 4,760,835
Benefits and payroll taxes	191,128	563,691	9,560	764,379
Total personnel expenses	<u>1,358,373</u>	<u>4,156,163</u>	<u>10,678</u>	<u>5,525,214</u>
Professional fees and contract services	367,510	319,603		687,113
Office expenses	25,137	522,909		548,046
Rent	228,510	334,852		563,362
Supplies and activities	306,310	179,022		485,332
Food		324,426		324,426
Donated materials (Note 12)				-
Repairs and maintenance	21,978	123,749		145,727
Utilities	17,531	120,753		138,284
Telephone	12,469	50,741		63,210
Insurance	345			345
Depreciation	47,002	19,372		66,374
Auto	10,317	22,998		33,315
Taxes and licenses	28,679			28,679
Miscellaneous	1,175	5,173		6,348
Dues and subscriptions	6,424			6,424
Postage	44	85		129
Fundraising expense				-
Fees and penalties		6		6
TOTAL 2022 FUNCTIONAL EXPENSES	<u><u>\$ 2,431,804</u></u>	<u><u>\$ 6,179,852</u></u>	<u><u>\$ 10,678</u></u>	<u><u>\$ 8,622,334</u></u>
TOTAL 2021 FUNCTIONAL EXPENSES	<u><u>\$ 2,609,970</u></u>	<u><u>\$ 4,658,601</u></u>	<u><u>\$ 5,606</u></u>	<u><u>\$ 7,274,177</u></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, 2022
 With comparative totals for the year ended June 30, 2021
 continued

	Total Program Services	Support Services		Total Support Services	Total Expenses	
		General and Administrative	Fundraising		2022	2021
Salaries and wages	\$ 4,760,835	\$ 422,130	\$ 159,429	\$ 581,559	\$ 5,342,394	\$ 4,402,417
Benefits and payroll taxes	764,379	164,065	23,614	187,679	952,058	834,285
Total personnel expenses	5,525,214	586,195	183,043	769,238	6,294,452	5,236,702
Professional fees and contract services	687,113	329,469	324	329,793	1,016,906	855,542
Office expenses	548,046	188,623	18,492	207,115	755,161	373,090
Rent	563,362	21,128	4,731	25,859	589,221	593,349
Supplies and activities	485,332	24,750	5,833	30,583	515,915	388,627
Food	324,426	73	406	479	324,905	287,025
Donated materials (Note 12)	-	-	171,892	171,892	171,892	98,760
Repairs and maintenance	145,727	2,125	353	2,478	148,205	102,813
Utilities	138,284	2,979	687	3,666	141,950	89,758
Telephone	63,210	44,202	1,033	45,235	108,445	75,810
Insurance	345	77,855	-	77,855	78,200	38,317
Depreciation	66,374	-	-	-	66,374	62,478
Auto	33,315	506	-	506	33,821	34,211
Taxes and licenses	28,679	3,575	-	3,575	32,254	34,689
Miscellaneous	6,348	9,413	27	9,440	15,788	(998)
Dues and subscriptions	6,424	392	3,273	3,665	10,089	4,892
Postage	129	195	-	195	324	3,169
Fundraising expense	-	-	150	150	150	-
Fees and penalties	6	46	-	46	52	176
TOTAL 2022 FUNCTIONAL EXPENSES	\$ 8,622,334	\$ 1,291,526	\$ 390,244	\$ 1,681,770	\$ 10,304,104	
TOTAL 2021 FUNCTIONAL EXPENSES	\$ 7,274,177	\$ 717,566	\$ 286,667	\$ 1,004,233		\$ 8,278,410

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, 2022

With comparative totals for the year ended June 30, 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,500,418	\$ 1,786,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,374	62,478
Forgiveness of refundable government grant	(605,492)	-
Donated investments	(1,909,310)	-
Investment loss (income), net	357,135	-
(Increase) decrease in operating assets:		
Accounts and grants receivable	(376,859)	(197,910)
Pledge receivable	1,650,274	(1,618,500)
Prepaid expenses	(18,228)	1,230
Deposits	(3,200)	-
Increase (decrease) in operating liabilities:		
Accounts payable	99,010	(27,112)
Accrued liabilities	(250,058)	110,312
	510,064	116,947
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(70,849)
	-	(70,849)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(13,028)	(14,429)
	(13,028)	(14,429)
NET INCREASE IN CASH	497,036	31,669
CASH, BEGINNING OF YEAR	862,115	830,446
CASH, END OF YEAR	\$ 1,359,151	\$ 862,115

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”) has been on the forefront of community mental health services since 1979, meeting the needs of community members who have little to no income and would not otherwise have access to the care they require. In addition to intensive behavioral healthcare, case and medication management, crisis interventions, trauma-informed studio arts classes, and supportive housing, Alcott also provides justice-involved re-entry services. Alcott recognizes that mental health, the justice system, and housing are extremely intertwined. For that reason, Alcott launched and continues to expand supportive housing projects with a focus on justice-involved reentry and utilizes trauma-informed property management to help community members maintain housing.

Alcott’s current programming includes:

Mental Health Services - comprehensive outpatient mental health services to underserved adults, 18+, who receive Medi-Cal or have no health benefits. In most instances, mental health services are available at no cost, or, depending on your income, very little cost. Services are provided in office, in the field, and virtually via telehealth, depending on the need. Alcott’s mental health program serves a broad range of individuals, from those impacted by life change adjustments, to those requiring intensive, wraparound services. Mental health services include full psychosocial assessment, individual therapy, group therapy, case management, psychiatry and socialization activities.

Supportive Housing Services - includes field-based Intensive Case Management Services (ICMS) providing linkage to and assistance with benefit applications, linkage to medical, mental health, substance use treatment, housing searches and processing of applications, and emergency, transitional and permanent housing for community members who have experienced chronic homelessness. Supportive Housing Services also includes our trauma-informed property management services at our Project Homekey Commerce site.

Justice-Involved Reintegration - services include field-based intensive case management, linkage to medical, mental health, substance use treatment, psychiatry, housing searches and the processing of permanent supportive housing applications for community members navigating the justice system. These services also include our on-site bridge home programming in South LA and Watts that serves people navigating justice-involved re-entry and mental health challenges.

Studio Art Classes - trauma-informed studio art classes that are open to participants in all Alcott’s programming as well as the wider community to help reduce the stigma around mental health challenges.

Pico-Robertson Health Neighborhood - coalition of social service agencies that identify community needs, increase awareness and educate the community in order to improve health and quality of life in the Pico Robertson area.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

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.

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 those 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, 2022 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. Conditional promises to give are not recorded until the conditions are substantially met.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2022, 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, 2022, Alcott recognized DMH revenue of \$2,707,062 and DHS revenue of \$7,706,673. Revenue from these two sources, as a percentage of total revenue, was 23% and 65%, respectively. Alcott expects its relationship with DMH and DHS to continue.

Investments

Alcott values its investments at fair value. Interest and dividends, and unrealized gains or losses (including investments bought, sold, and held during the year), are included in the Statement of Activities as investment income (loss). Short-term highly liquid money market deposits that are not used for operations are treated as investments.

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 pledges receivable at fair value. The specific technique used to measure fair value for this financial statement element is described in the notes below that relates to the 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.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 and Revenue Recognition

Alcott recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give –that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

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 DMH 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

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, 2022, Alcott recorded \$171,892 of donated materials that met the criteria for recognition. Also see Note 12.

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.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

Recently Adopted Accounting Pronouncement

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU clarifies the presentation and disclosure of contributed nonfinancial assets, including land, buildings, and other items, to increase transparency and comparability surrounding contributed nonfinancial assets through enhancements to presentation and disclosure. The ASU requires to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, include in disclosures a disaggregation of the amount of contributed nonfinancial assets by category, for each category, additional qualitative disclosures. The update does not change existing recognition and measurement requirements for contributed nonfinancial assets. The ASU is effective for fiscal years beginning after June 15, 2021. Alcott's financial statements for the year ended June 30, 2022, are presented in accordance with ASU 2020-07.

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, 2021, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through September 6, 2023 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.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources

Alcott has \$4,240,906 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.

As of June 30, 2022, 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	\$1,359,151
Accounts and grants receivable	1,347,306
Investments	<u>1,552,175</u>
Financial assets at year-end	4,258,632
Less: assets unavailable for general expenditure:	
Client trust accounts (see Note 6)	<u>(17,726)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$4,240,906</u>

Alcott also has in place fee-for-service government contracts which could produce approximately \$7 million 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 million in earned revenue to also cover general expenditures within the next year.

4. Investments

Investments at June 30, 2022 consists of the following:

Securities	\$ 968,404
Fixed income	400,298
Money market funds	<u>183,473</u>
	<u>\$1,552,175</u>

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at June 30, 2022 consist of the following:

Leasehold improvements	\$ 370,336
Vehicles	129,596
Equipment and furnishings	107,795
Government owned assets-leasehold improvements	<u>17,198</u>
	624,925
Less: accumulated depreciation	<u>(418,684)</u>
	206,241
Less: government owned asset liability (for right of reversion)	<u>(17,198)</u>
Total property and equipment, net	<u>\$ 189,043</u>

Depreciation expense, on owned assets, for the year ended June 30, 2022 was \$66,374.

6. Accrued Liabilities

Accrued liabilities at June 30, 2022 consist of the following:

Accrued vacation	\$173,774
Other liabilities	109,365
Accrued payroll	75,116
Due to clients (see Note 3)	<u>17,726</u>
	<u>\$375,981</u>

The accrued vacation balance above is included on the Statement of Financial Position as a short-term liability in accordance with generally accepted accounting principles. However, the average change in the 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.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

7. Notes Payable

Notes payable at June 30, 2022 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. \$ 6,098

Note payable to corporation, secured by a vehicle, bearing simple interest at 5.59%, monthly payments of \$366, due April 2024. 5,446

Note payable to corporation, secured by a vehicle, bearing simple interest at .9%, monthly payments of \$396, due February 2023. 4,277
\$15,821

Maturities for the notes payable are as follows:

<u>Year ending June 30,</u>	
2023	\$12,556
2024	<u>3,265</u>
	<u>\$15,821</u>

8. 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.

Alcott accounted for the funding as a conditional grant under FASB ASC 958-605. That amount was included as a liability in the Statement of Financial Position as a “Refundable Government Grant”.

In March 2022, Alcott received notification from its Small Business Administration (“SBA”) loan servicer that its PPP loan had been forgiven. The forgiven loan of \$605,492 is recognized as revenue on the Statement of Activities for the year ended June 30, 2022.

The SBA reserves the right to review any loan at their discretion and the SBA has indicated that it will review loans of \$2 million or more. Areas of review include eligibility, necessity, calculation of the loan amount, use of loan proceeds, and the calculation of the loan forgiveness amount. PPP loan documentation should be retained for six years after the date the loan is forgiven or repaid in full.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

9. Fair Value Measurements

The table below presents transactions measured at fair value on a recurring basis during the year ended June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 968,404	\$ -	\$ -	\$ 968,404
Mutual funds				
Bonds	<u>400,298</u>	<u> </u>	<u> </u>	<u>400,298</u>
	<u>\$1,368,702</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,368,702</u>

The fair values of equities and mutual funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed materials	<u>\$ -</u>	<u>\$171,892</u>	<u>\$ -</u>	<u>\$171,892</u>

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

10. Commitments and Contingencies

Obligations Under Operating Leases

Alcott leases various facilities and equipment 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>	
2023	\$199,571
2024	175,379
2025	<u>21,586</u>
	<u>\$396,536</u>

Rent expense for the year ended June 30, 2022 was \$589,221, which includes certain annual leases.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

10. 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 year ended June 30, 2022, Alcott completed final contract settlements for its DMH contract years 2005-2006 through 2015-2016 and completed interim settlements for its DMH contract years 2016-2017 through 2020-2021. The net effect of these settlements resulted in additional contract revenue of \$167,337 related to various prior year contracts, which is shown on Statement of Activities as of June 30, 2022 as "prior year DMH contract settlement". Receivables and/or payables related these final and interim settlements, except for contract year 2020-2021, were all reconciled as of June 30, 2022. As of June 30, 2022, a receivable of \$309,962 remained outstanding related to the interim settlement of contract year 2020-2021 and was included in accounts receivable at June 30, 2022.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2022 consist of assets restricted for the following:

Workstations	\$60,433
Services to residents of Fisher Place bridge housing facility	<u>15,000</u>
	<u>\$75,433</u>

12. Donated Materials

Alcott received donations of goods/materials from various donors. Donated materials received for the year ended June 30, 2022 were as follows:

Clothing	\$110,250
Other goods	45,566
Art	5,000
Health products	5,000
Equipment	3,500
Food	<u>2,576</u>
Total	<u>\$171,892</u>

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

12. **Donated Materials**, continued

The donated items were used as part of Alcott's fundraising efforts. The in-kind contributions did not have donor-imposed restrictions.

The fair value of the contributed materials is based on the market price that would be charged by the vendor to the buyer of the donated items. The in-kind contributions were recorded as revenue and expense.

13. **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, 2022 were \$43,438.

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, 2022, 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 September 6, 2023.

Report on 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings as item **2022-01** that we consider to be a material weakness.

Report on 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

Alcott Center for Mental Health Services' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Alcott Center for Mental Health Services' response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. Alcott Center for Mental Health Services' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
September 6, 2023

ALCOTT CENTER FOR MENTAL HEALTH SERVICES
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENT FINDINGS

Item: 2022-01

Type: Material Weakness

Condition: Certain balance sheet and revenue accounts were not reconciled on a timely basis and material post year-end audit adjustments were needed to correct misstatements.

Criteria: Proper month-end closing procedures should be in place to ensure the accuracy of books and records throughout the year, and proper year-end closing procedures should be in place to ensure that the data has all been entered, all transactions are recorded accurately, and that accounts are reconciled, balanced and recorded in accordance with generally accepted accounting principles (GAAP).

Cause: Appropriate month-end closing and/or year-end closing reconciliation procedures are not in place to properly reconcile accounts and identify misstatements.

Effect: Inaccurate interim, internal financial statements on which management relies to make decisions.

Recommendation: We recommend management establish regular month-end closing and year-end closing procedures to ensure general ledger accounts are reconciled with supporting account information.

Client Response: See the view of the officials and the corrective action plan which have been provided by management.