

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2021

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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, 2021, 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, 2021, 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' 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 12, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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 June 9, 2022, 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

June 9, 2022

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

STATEMENT OF FINANCIAL POSITION

June 30, 2021

With comparative totals at June 30, 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT		
Cash	\$ 862,115	\$ 830,446
Accounts and grants receivable	970,447	772,537
Pledges receivable (Note 2)	1,650,274	31,774
Prepaid expenses	13,902	15,132
Total current assets	<u>3,496,738</u>	<u>1,649,889</u>
NON-CURRENT		
Deposits	46,000	46,000
Property and equipment, net (Note 4)	255,417	247,046
Total non-current assets	<u>301,417</u>	<u>293,046</u>
TOTAL ASSETS	<u>\$ 3,798,155</u>	<u>\$ 1,942,935</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT		
Accounts payable	\$ 45,864	\$ 72,976
Accrued liabilities (Note 5)	350,669	240,357
Notes payable (Note 6)	13,652	14,430
Total current liabilities	<u>410,185</u>	<u>327,763</u>
NON-CURRENT		
Accrued liabilities (Note 5)	275,370	275,370
Notes payable (Note 6)	15,197	28,848
Refundable government grant (Note 7)	605,492	605,492
Total non-current liabilities	<u>896,059</u>	<u>909,710</u>
TOTAL LIABILITIES	<u>1,306,244</u>	<u>1,237,473</u>
NET ASSETS		
Without donor restrictions	2,491,911	526,870
With donor restrictions (Note 9)	-	178,592
TOTAL NET ASSETS	<u>2,491,911</u>	<u>705,462</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,798,155</u>	<u>\$ 1,942,935</u>

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, 2021
 With comparative totals for the year ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021</u>	<u>2020</u>
REVENUE AND SUPPORT				
Government contract revenue	\$ 8,056,132	\$ -	\$ 8,056,132	\$ 5,473,268
Contributions	1,879,068		1,879,068	285,963
Other revenue	24,399		24,399	19,246
Contributions - in kind (Note 2)	98,760		98,760	-
Special event income	6,500		6,500	(6,767)
Net assets released from program restrictions	178,592	(178,592)	-	-
TOTAL REVENUE AND SUPPORT	<u>10,243,451</u>	<u>(178,592)</u>	<u>10,064,859</u>	<u>5,771,710</u>
EXPENSES				
Program services	7,274,177		7,274,177	4,772,442
Support services	1,004,233		1,004,233	644,465
TOTAL EXPENSES	<u>8,278,410</u>	<u>-</u>	<u>8,278,410</u>	<u>5,416,907</u>
CHANGE IN NET ASSETS	1,965,041	(178,592)	1,786,449	354,803
NET ASSETS, BEGINNING OF YEAR	<u>526,870</u>	<u>178,592</u>	<u>705,462</u>	<u>350,659</u>
NET ASSETS, END OF YEAR	<u>\$ 2,491,911</u>	<u>\$ -</u>	<u>\$ 2,491,911</u>	<u>\$ 705,462</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, 2021

With comparative totals for the year ended June 30, 2020

	Program Services			Total Program Services
	Mental Health	Housing	Other	
Salaries and wages	\$ 1,273,206	\$ 2,720,114	\$ 2,417	\$ 3,995,737
Benefits and payroll taxes	266,253	464,679	3,097	734,029
Total personnel expenses	1,539,459	3,184,793	5,514	4,729,766
Professional fees and contract services	439,761	262,278		702,039
Rent	232,128	330,463		562,591
Program supplies and activities	243,648	116,400	68	360,116
Office expenses	6,140	245,385		251,525
Food	735	285,836		286,571
Repairs and maintenance	14,657	82,302		96,959
In-kind expenses				-
Utilities	15,799	70,895		86,694
Telephone	16,225	29,632		45,857
Depreciation	47,414	15,064		62,478
Insurance	7,558	6,174	24	13,756
Taxes and licenses	32,161			32,161
Auto	6,987	27,064		34,051
Dues and subscriptions	4,149			4,149
Postage	8	244		252
Fees and penalties		86		86
Miscellaneous	3,141	1,985		5,126
TOTAL 2021 FUNCTIONAL EXPENSES	\$ 2,609,970	\$ 4,658,601	\$ 5,606	\$ 7,274,177
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, 2021
 With comparative totals for the year ended June 30, 2020
 continued

	Total Program Services	Support Services		Total Support Services	Total Expenses	
		General and Administrative	Fundraising		2021	2020
Salaries and wages	\$ 3,995,737	\$ 296,370	\$ 110,310	\$ 406,680	\$ 4,402,417	\$ 2,968,526
Benefits and payroll taxes	734,029	83,679	16,577	100,256	834,285	579,174
Total personnel expenses	4,729,766	380,049	126,887	506,936	5,236,702	3,547,700
Professional fees and contract services	702,039	140,645	12,858	153,503	855,542	490,770
Rent	562,591	26,060	4,698	30,758	593,349	375,270
Program supplies and activities	360,116	12,801	15,710	28,511	388,627	335,119
Office expenses	251,525	97,993	23,572	121,565	373,090	229,957
Food	286,571	454		454	287,025	77,332
Repairs and maintenance	96,959	5,517	337	5,854	102,813	52,117
In-kind expenses	-		98,760	98,760	98,760	-
Utilities	86,694	2,284	780	3,064	89,758	42,753
Telephone	45,857	29,504	449	29,953	75,810	38,669
Depreciation	62,478			-	62,478	54,051
Insurance	13,756	24,500	61	24,561	38,317	36,097
Taxes and licenses	32,161	2,528		2,528	34,689	29,868
Auto	34,051	160		160	34,211	60,805
Dues and subscriptions	4,149	681	62	743	4,892	23,550
Postage	252	431	2,486	2,917	3,169	990
Fees and penalties	86	88	2	90	176	610
Miscellaneous	5,126	(6,129)	5	(6,124)	(998)	21,249
TOTAL 2021 FUNCTIONAL EXPENSES	\$ 7,274,177	\$ 717,566	\$ 286,667	\$ 1,004,233	\$ 8,278,410	
TOTAL 2020 FUNCTIONAL EXPENSES	\$ 4,772,442	\$ 533,083	\$ 111,382	\$ 644,465		\$ 5,416,907

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, 2021

With comparative totals for the year ended June 30, 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,786,449	\$ 354,803
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	62,478	54,051
(Increase) decrease in operating assets:		
Accounts and grants receivable	(197,910)	(369,435)
Pledge receivable	(1,618,500)	(31,774)
Prepaid expenses	1,230	1,301
Deposits	-	(25,000)
Increase (decrease) in operating liabilities:		
Accounts payable	(27,112)	14,313
Accrued liabilities	110,312	127,855
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>116,947</u>	<u>126,114</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(70,849)</u>	<u>-</u>
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(70,849)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
New borrowings on line of credit	-	75,000
Payments on line of credit	-	(75,000)
Payments on notes payable	(14,429)	(14,048)
Refundable government advances - paycheck protection program	<u>-</u>	<u>605,492</u>
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	<u>(14,429)</u>	<u>591,444</u>
NET INCREASE IN CASH	31,669	717,558
CASH, BEGINNING OF YEAR	<u>830,446</u>	<u>112,888</u>
CASH, END OF YEAR	<u>\$ 862,115</u>	<u>\$ 830,446</u>
SUPPLEMENTAL DISCLOSURE:		
Non-cash investing and financing transactions:		
Purchased vehicles with notes payable	<u>\$ -</u>	<u>\$ 44,263</u>

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 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, 2021 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, 2021, 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, 2021, Alcott recognized DMH revenue of \$2,689,569 and DHS revenue of \$5,366,563. Revenue from these two sources, as a percentage of total revenue, was 27% and 53%, respectively. 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 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.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2021, Alcott recorded \$98,760 of donated materials which met the criteria for recognition.

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, 2020, from which the summarized information was derived.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources

Alcott has \$3,491,219 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, 2021, 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	\$ 862,115
Accounts, grants and pledges receivable	<u>2,620,721</u>
Financial assets at year-end	3,482,836
Less: assets unavailable for general expenditure within one year:	
Client trust accounts (see Note 5)	<u>(15,375)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$3,467,461</u>

Alcott also has in place fee-for-service government contracts which could produce approximately \$5 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 \$2.6 million in earned revenue to also cover general expenditures within the next year.

4. Property and Equipment

Property and equipment at June 30, 2021 consist of the following:

Leasehold improvements	\$ 370,336
Vehicles	129,596
Equipment and furnishings	107,795
Government owned assets-leasehold improvements	<u>31,940</u>
	639,667
Less: accumulated depreciation	<u>(352,310)</u>
	287,357
Less: government owned asset liability (for right of reversion)	<u>(31,940)</u>
Total property and equipment, net	<u>\$ 255,417</u>

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

4. **Property and Equipment**, continued

Depreciation expense, on owned assets, for the year ended June 30, 2021 was \$62,478.

5. **Accrued Liabilities**

Accrued liabilities at June 30, 2021 consist of the following:

Accrued vacation	\$131,733
Accrued payroll	55,318
Other liabilities	148,243
Due to clients (see Note 3)	<u>15,375</u>
Current liabilities	350,669
DMH prior year settlements – liability (non-current) – See Note 9	<u>275,370</u>
	<u>\$626,039</u>

The accrued vacation balance above is classified as a short-term liability in accordance with generally accepted accounting principles. However, the average change in 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, 2021 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.	\$11,386
Note payable to corporation, secured by a vehicle, bearing simple interest at 5.59%, monthly payments of \$366, due April 2024.	9,838
Note payable to corporation, secured by a vehicle, bearing simple interest at .9%, monthly payments of \$396, due February 2023.	<u>7,625</u>
	<u>\$28,849</u>

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

6. Notes Payable

Maturities for the notes payable are as follows:

<u>Year ending June 30,</u>	
2022	\$13,652
2023	12,200
2024	<u>2,997</u>
	<u>\$28,849</u>

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.

Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral period for loan payments of either (1) the date that the Small Business Administration (“SBA”) remits the borrower’s loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower’s loan forgiveness covered period. Alcott intended to use the proceeds for purposes consistent with the PPP guidelines.

Alcott accounted for the funding as a conditional grant under FASB ASC 958-605. As of June 30, 2021, Alcott had not met all of the conditions of the grant and therefore did not record the PPP funding. That amount is included as a liability in the Statement of Financial Position as a “Refundable Government Grant” (also see Note 11).

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

8. Fair Value Measurements

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed materials	\$ _____	\$98,760	\$ _____	\$98,760

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).

9. 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>	
2022	\$386,600
2023	189,275
2024	161,721
2025	<u>13,363</u>
	<u>\$750,959</u>

Rent expense for the year ended June 30, 2021 was \$593,349, which includes certain annual leases.

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.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

9. Commitments and Contingencies, continued

Contracts, 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 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 State of California and Los Angeles County 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.

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, 2021 were \$41,261.

11. Subsequent Events

In March 2022, Alcott received notification from its SBA loan servicer that its PPP loan had been forgiven. The amount forgiven was \$616,507, which included accrued interest of \$11,015, will be recognized as revenue in the year ending June 30, 2022.

Management has evaluated subsequent events through June 9, 2022 the date which the financial statements were available for issue. Except as noted above, no other events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

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, 2021, 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 June 9, 2022.

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
June 9, 2022