

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2018

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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, which comprise the Statement of Financial Position as of June 30, 2018, 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.

INDEPENDENT AUDITORS' REPORT

continued

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, 2018, 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.

Other Matter

Report on Summarized Comparative Information

We have previously audited the Alcott Center for Mental Health Services' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 February 15, 2019, 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 to solely 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

February 15, 2019

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

STATEMENT OF FINANCIAL POSITION

June 30, 2018

With comparative totals at June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018</u>	<u>2017</u>
ASSETS				
CURRENT				
Cash	\$ 56,083	\$ 22,741	\$ 78,824	\$ 308,567
Accounts and grants receivable	293,983		293,983	102,415
Pledge receivable (Note 2)			-	1,000
Prepaid expenses	12,240		12,240	11,392
TOTAL CURRENT ASSETS	<u>362,306</u>	<u>22,741</u>	<u>385,047</u>	<u>423,374</u>
NON-CURRENT				
Deposits	21,000		21,000	26,000
Property and equipment (Note 3)	274,466		274,466	54,073
TOTAL NON-CURRENT ASSETS	<u>295,466</u>	<u>-</u>	<u>295,466</u>	<u>80,073</u>
TOTAL ASSETS	<u>\$ 657,772</u>	<u>\$ 22,741</u>	<u>\$ 680,513</u>	<u>\$ 503,447</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
CURRENT				
Accounts payable	\$ 123,090	\$ -	\$ 123,090	\$ 47,708
Accrued liabilities (Note 4)	98,469		98,469	131,961
TOTAL CURRENT LIABILITIES	<u>221,559</u>	<u>-</u>	<u>221,559</u>	<u>179,669</u>
NON-CURRENT				
Accrued liabilities (Note 4)	263,912		263,912	61,546
Government owned assets (Note 3)	73,707		73,707	-
Note payable (Note 5)	21,696		21,696	-
TOTAL NON-CURRENT LIABILITIES	<u>359,315</u>	<u>-</u>	<u>359,315</u>	<u>61,546</u>
TOTAL LIABILITIES	<u>580,874</u>	<u>-</u>	<u>580,874</u>	<u>241,215</u>
NET ASSETS				
Unrestricted	76,898		76,898	221,060
Temporarily restricted (Note 7)		22,741	22,741	41,172
TOTAL NET ASSETS	<u>76,898</u>	<u>22,741</u>	<u>99,639</u>	<u>262,232</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 657,772</u>	<u>\$ 22,741</u>	<u>\$ 680,513</u>	<u>\$ 503,447</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, 2018

With comparative totals for the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018</u>	<u>2017</u>
REVENUE				
Government contract revenue - DMH	\$ 2,164,035	\$ -	\$ 2,164,035	\$ 1,883,138
Contributions	64,655	125,000	189,655	271,376
Special event revenue, net			-	10,211
Other revenue	25,974		25,974	15,643
Contributions - in-kind (Note 2)	2,805		2,805	10,635
Net assets released from restrictions (Note 7)	143,431	(143,431)	-	-
TOTAL REVENUE	<u>2,400,900</u>	<u>(18,431)</u>	<u>2,382,469</u>	<u>2,191,003</u>
EXPENSES				
Program services	2,085,484		2,085,484	1,832,727
Support services	275,578		275,578	236,318
TOTAL EXPENSES	<u>2,361,062</u>	<u>-</u>	<u>2,361,062</u>	<u>2,069,045</u>
CHANGE IN NET ASSETS BEFORE CONTRACT SETTLEMENTS	39,838	(18,431)	21,407	121,958
Contract settlements (expense) - prior years (Note 6)	(184,000)		(184,000)	(60,000)
CHANGE IN NET ASSETS	(144,162)	(18,431)	(162,593)	61,958
NET ASSETS, BEGINNING OF YEAR	<u>221,060</u>	<u>41,172</u>	<u>262,232</u>	<u>200,274</u>
NET ASSETS, END OF YEAR	<u>\$ 76,898</u>	<u>\$ 22,741</u>	<u>\$ 99,639</u>	<u>\$ 262,232</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, 2018

With comparative totals for the year ended June 30, 2017

	Program Services	Support Services		Total Support Services	Total Expenses	
		General and Administrative	Fundraising		2018	2017
Salaries and wages	\$ 960,657	\$ 120,118	\$ 49,438	\$ 169,556	\$ 1,130,213	\$ 1,070,023
Benefits and payroll taxes	196,687	19,189	6,547	25,736	222,423	237,135
Total personnel expenses	1,157,344	139,307	55,985	195,292	1,352,636	1,307,158
Professional fees and contract services	351,675	12,250	200	12,450	364,125	248,536
Rent	169,567	43,730	3,082	46,812	216,379	200,505
Program supplies and activities	153,634			-	153,634	133,719
Capital assets (paid for by government)	73,707			-	73,707	-
Office expense	45,341	697	8,559	9,256	54,597	34,896
Repairs and maintenance	28,907	821	482	1,303	30,210	32,122
Insurance	17,444	3,345	942	4,287	21,731	17,409
Taxes and licenses	19,499	546	41	587	20,086	18,664
Telephone	16,006	552	266	818	16,824	16,695
Utilities	14,379	627	306	933	15,312	14,907
Auto	11,937		20	20	11,957	8,821
Depreciation	9,504			-	9,504	8,088
Food	5,962	62		62	6,024	4,518
Miscellaneous	3,393	1,519	20	1,539	4,932	5,677
Dues and subscriptions	4,177	26		26	4,203	3,569
In-kind expense	2,805			-	2,805	10,635
Postage	183	550	1,377	1,927	2,110	2,240
Fees/penalties		266		266	266	766
Fundraising expense	20			-	20	120
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 2,085,484	\$ 204,298	\$ 71,280	\$ 275,578	\$ 2,361,062	
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 1,832,727	\$ 167,304	\$ 69,014	\$ 236,318		\$ 2,069,045

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, 2018

With comparative totals for the year ended June 30, 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (162,593)	\$ 61,958
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	9,504	8,088
(Increase) decrease in operating assets:		
Accounts and grants receivable	(191,568)	48,029
Pledge receivable	1,000	(1,000)
Prepaid expenses	(848)	(11,551)
Deposits	5,000	-
Increase (decrease) in operating liabilities:		
Accounts payable	75,382	(9,445)
Accrued liabilities	168,874	65,413
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(95,249)	161,492
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(132,979)	(30,376)
NET CASH (USED) BY INVESTING ACTIVITIES	(132,979)	(30,376)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	(1,515)	-
NET CASH (USED) BY INVESTING ACTIVITIES	(1,515)	-
NET (DECREASE) INCREASE IN CASH	(229,743)	131,116
CASH, BEGINNING OF YEAR	308,567	177,451
CASH, END OF YEAR	\$ 78,824	\$ 308,567
SUPPLEMENTAL DISCLOSURE		
Non-cash investing and financing transactions:		
Purchase vehicle with a note payable	\$ 23,211	\$ -
Purchase of property and equipment with government funds	\$ 73,707	\$ -
Operating activities reflects interest paid of:	\$ 68	\$ -

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 in West Los Angeles, with over 35 years of business experience, the agency provides a comprehensive range of outpatient mental health treatments, case management, and psychoeducation, serving adults of all ages, their families, and the community.

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

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.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Alcott are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Temporarily Restricted. Alcott reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Alcott has \$22,741 temporarily restricted net assets as of June 30, 2018.

Permanently Restricted. These net assets are received by donors who stipulate that resources are to be maintained permanently, but permit Alcott to expend all of the income (or other economic benefits) derived from the donated assets. Alcott has no permanently restricted net assets at June 30, 2018.

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, 2018 are deemed collectible. Therefore, no allowance for doubtful accounts has been recorded (see Note 5).

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, 2018 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"). During the year ended June 30, 2018, Alcott recognized DMH revenue of \$2,134,065 (91% of its total revenue). Alcott expects its relationship with DMH to continue.

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 technique used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Property and Equipment

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

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

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, 2018, Alcott recorded \$2,805 for donated materials.

Income Taxes

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

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2017, from which the summarized information was derived.

Reclassifications

Certain amounts have been reclassified for the year ended June 30, 2017 to conform to the presentation for the year ended June 30, 2018.

Subsequent Events

Management has evaluated subsequent events through February 15, 2019, 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. Property and Equipment

Property and equipment at June 30, 2018 consist of the following:

Leasehold improvements	\$ 119,921
Equipment and furnishings	71,445
Vehicles	<u>50,413</u>
	241,779
Less: accumulated depreciation	<u>(190,853)</u>
	50,926
Construction-in-progress	<u>223,540</u>
	<u>\$ 274,466</u>

Depreciation expense for the year ended June 30, 2018 was \$9,504. Included in construction-in-progress above are \$73,707 of government funds, which we used as part of the new space renovation.

4. Accrued Liabilities

Accrued liabilities at June 30, 2018 consist of the following:

Accrued vacation	\$ 52,220
Due to clients	14,001
Accrued payroll	19,078
Other liabilities	<u>13,170</u>
Current liabilities	98,469
DMH prior year settlements – liability (non-current)	<u>263,912</u>
	<u>\$362,381</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.

During 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. As such, the \$237,000 liability is not reflected as a current liability in these financial statements. That amount, however, is included in the "DMH prior year settlements – liability (non-current) above.

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

5. Note Payable

Note payable at June 30, 2018 consist of the following:

Note payable to corporation, secured by a vehicle, bearing simple interest at .9%, monthly payments of \$396, due February 2023. \$21,696

Maturities for note payable is as follows:

<u>Year ended June 30,</u>	
2019	\$ 4,573
2020	4,614
2021	4,656
2022	4,698
2023	<u>3,155</u>
	<u>\$21,696</u>

6. Commitments and Contingencies

Obligations Under Operating Leases

Alcott 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 ended June 30,</u>	
2019	\$204,671
2020	172,564
2021	<u>150,515</u>
	<u>\$527,750</u>

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. During the year ended June 30, 2018, Alcott recorded a contract settlement (expense) of \$184,000 related to information received regarding prior year mental health contracts which have been settled by the State.

continued

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 consist of the following:

Healthy Neighbor	\$21,378
Soros/Outreach	<u>1,363</u>
	<u>\$22,741</u>

During the year ended June 30, 2018, Alcott released \$143,431 of temporarily restricted net assets, \$43,431 for program restrictions and \$100,000 for capital restrictions.

8. Fair Value Measurements

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated materials	<u>\$ -</u>	<u>\$2,805</u>	<u>\$ -</u>	<u>\$2,805</u>

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

9. 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, 2018 were \$22,075.

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 ("Alcott"), which comprise the Statement of Financial Position as of June 30, 2018, 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 February 15, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

continued

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

February 15, 2019