HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

# ALCOTT CENTER FOR MENTAL HEALTH SERVICES

## FINANCIAL STATEMENTS
## and
## ADDITIONAL INFORMATION

## JUNE 30, 2023



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**C O N T E N T S**

HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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, 2023, 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 referred to above present fairly, in all material respects, the financial position of Alcott Center for Mental Health Services as of June 30, 2023, 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 opinion.

**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' 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 6, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, 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 26, 2024, 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 26, 2024

## ALCOTT CENTER FOR MENTAL HEALTH SERVICES

STATEMENT OF FINANCIAL POSITION
June 30, 2023
With comparative totals at June 30, 2022

| | Without Donor Restrictions | With Donor Restrictions | 2023 | 2022 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT** | | | | |
| Cash | $ 1,316,779 | $ 167,007 | **$ 1,483,786** | $ 1,359,151 |
| Accounts and grants receivable | 1,807,349 | | **1,807,349** | 1,347,306 |
| Pledges receivable (Note 2) | | | **-** | - |
| Prepaid expenses | 149,980 | | **149,980** | 32,130 |
| Investments (Note 4) | 1,702,760 | | **1,702,760** | 1,552,175 |
| Right-of-use assets - operating leases (Note 9) | 892,237 | | **892,237** | |
| **Total current assets** | 5,869,105 | 167,007 | **6,036,112** | 4,290,762 |
| **NON-CURRENT** | | | | |
| Deposits | 133,993 | | **133,993** | 49,200 |
| Property and equipment, net (Note 5) | 181,886 | | **181,886** | 189,043 |
| Right-of-use assets - operating leases (Note 9) | 1,349,688 | | **1,349,688** | - |
| **Total non-current assets** | 1,665,567 | - | **1,665,567** | 238,243 |
| **TOTAL ASSETS** | $ 7,534,672 | $ 167,007 | **$ 7,701,679** | $ 4,529,005 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **LIABILITIES** | | | | |
| **CURRENT** | | | | |
| Accounts payable | $ 143,394 | $ - | **$ 143,394** | $ 144,874 |
| Accrued liabilities (Note 6) | 432,149 | | **432,149** | 375,981 |
| Notes payable (Note 7) | 2,078 | | **2,078** | 12,556 |
| Deferred revenue | 77,861 | | **77,861** | - |
| Lease liabilities - operating leases (Note 9) | 892,635 | | **892,635** | |
| **Total current liabilities** | 1,548,117 | - | **1,548,117** | 533,411 |
| **NON-CURRENT** | | | | |
| Notes payable (Note 7) | - | | **-** | 3,265 |
| Lease liabilities - operating leases (Note 9) | 1,397,553 | | **1,397,553** | - |
| **Total non-current liabilities** | 1,397,553 | - | **1,397,553** | 3,265 |
| **TOTAL LIABILITIES** | 2,945,670 | - | **2,945,670** | 536,676 |
| **NET ASSETS** | | | | |
| Without donor restrictions | 4,589,002 | | **4,589,002** | 3,916,896 |
| With donor restrictions (Note 11) | | 167,007 | **167,007** | 75,433 |
| **TOTAL NET ASSETS** | 4,589,002 | 167,007 | **4,756,009** | 3,992,329 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 7,534,672 | $ 167,007 | **$ 7,701,679** | $ 4,529,005 |

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, 2023
With comparative totals for the year ended June 30, 2022

| | Without Donor Restrictions | With Donor Restrictions | 2023 | 2022 |
|---|---|---|---|---|
| **REVENUE AND SUPPORT** | | | | |
| Government contract revenue | $ 12,837,866 | $ - | **$ 12,837,866** | $ 10,306,398 |
| Contributions | 167,437 | 271,450 | **438,887** | 866,373 |
| Investment income (loss), net | 152,604 | | **152,604** | (357,135) |
| Other revenue | 106,504 | | **106,504** | 44,165 |
| Donated materials (Note 12) | 8,782 | | **8,782** | 171,892 |
| Net assets released from program restrictions | 179,876 | (179,876) | **-** | - |
| **TOTAL REVENUE AND SUPPORT** | 13,453,069 | 91,574 | **13,544,643** | 11,031,693 |
| **EXPENSES** | | | | |
| Program services | 10,876,772 | | **10,876,772** | 8,622,334 |
| Support services | 1,952,941 | | **1,952,941** | 1,681,770 |
| **TOTAL EXPENSES** | 12,829,713 | - | **12,829,713** | 10,304,104 |
| **CHANGE IN NET ASSETS BEFORE OTHER CHANGES** | 623,356 | 91,574 | **714,930** | 727,589 |
| **OTHER CHANGES** | | | | |
| Prior-year Department of Mental Health (DMH) contract settlements (Note 10) | 48,750 | | **48,750** | 167,337 |
| Forgiveness of paycheck protection program loan | - | | **-** | 605,492 |
| **TOTAL OTHER CHANGES** | 48,750 | - | **48,750** | 772,829 |
| **CHANGE IN NET ASSETS** | 672,106 | 91,574 | **763,680** | 1,500,418 |
| **NET ASSETS, BEGINNING OF YEAR** | 3,916,896 | 75,433 | **3,992,329** | 2,491,911 |
| **NET ASSETS, END OF YEAR** | $ 4,589,002 | $ 167,007 | **$ 4,756,009** | $ 3,992,329 |

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, 2023
With comparative totals for the year ended June 30, 2022

| | Mental Health | Housing | Health Neighborhood Program Services | Total Program Services |
|---|---|---|---|---|
| Salaries and wages | $ 1,251,912 | $ 4,732,490 | $ 97 | $ 5,984,499 |
| Benefits and payroll taxes | 266,108 | 860,532 | 12,483 | 1,139,123 |
| Total personnel expenses | 1,518,020 | 5,593,022 | 12,580 | 7,123,622 |
| Professional fees and contract services | 552,658 | 356,701 | | 909,359 |
| Office expenses | 82,330 | 517,490 | | 599,820 |
| Program supplies and activities | 434,720 | 195,948 | | 630,668 |
| Rent | 277,716 | 343,731 | | 621,447 |
| Food | 4,999 | 380,876 | | 385,875 |
| Utilities | 24,751 | 157,362 | | 182,113 |
| Repairs and maintenance | 27,927 | 121,976 | | 149,903 |
| Telephone | 5,668 | 41,034 | | 46,702 |
| Depreciation | 46,592 | 21,498 | | 68,090 |
| Taxes and licenses | 24,566 | 17,289 | | 41,855 |
| Auto | 9,293 | 52,017 | | 61,310 |
| Insurance | 11,516 | 36,371 | | 47,887 |
| Fundraising expense | | | | - |
| Donated materials (Note 12) | | | | - |
| Dues and subscriptions | 5,427 | | | 5,427 |
| Miscellaneous | 1,587 | 954 | | 2,541 |
| Postage | 24 | 129 | | 153 |
| Fees and penalties | | | | - |
| **TOTAL 2023 FUNCTIONAL EXPENSES** | **$ 3,027,794** | **$ 7,836,398** | **$ 12,580** | **$ 10,876,772** |
| TOTAL 2022 FUNCTIONAL EXPENSES | $ 2,431,804 | $ 6,179,852 | $ 10,678 | $ 8,622,334 |

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, 2023
With comparative totals for the year ended June 30, 2022
continued

| | Total Program Services | Support Services | | Total Support Services | Total Expenses | |
|---|---|---|---|---|---|---|
| | | General and Administrative | Fundraising | | 2023 | 2022 |
| Salaries and wages | $ 5,984,499 | $ 597,046 | $ 210,363 | $ 807,409 | **$ 6,791,908** | $ 5,342,394 |
| Benefits and payroll taxes | 1,139,123 | 169,749 | 40,015 | 209,764 | **1,348,887** | 952,058 |
| Total personnel expenses | 7,123,622 | 766,795 | 250,378 | 1,017,173 | **8,140,795** | 6,294,452 |
| Professional fees and contract services | 909,359 | 365,948 | 959 | 366,907 | **1,276,266** | 1,016,906 |
| Office expenses | 599,820 | 288,741 | 60,420 | 349,161 | **948,981** | 755,161 |
| Program supplies and activities | 630,668 | 12,478 | 41,128 | 53,606 | **684,274** | 515,915 |
| Rent | 621,447 | 25,317 | 4,721 | 30,038 | **651,485** | 589,221 |
| Food | 385,875 | 3,637 | 2,198 | 5,835 | **391,710** | 324,905 |
| Utilities | 182,113 | 14,318 | 768 | 15,086 | **197,199** | 141,950 |
| Repairs and maintenance | 149,903 | 10,174 | 851 | 11,025 | **160,928** | 148,205 |
| Telephone | 46,702 | 72,639 | 1,181 | 73,820 | **120,522** | 108,445 |
| Depreciation | 68,090 | 432 | | 432 | **68,522** | 66,374 |
| Taxes and licenses | 41,855 | 6,495 | 350 | 6,845 | **48,700** | 32,254 |
| Auto | 61,310 | 1,210 | | 1,210 | **62,520** | 33,821 |
| Insurance | 47,887 | | 1,883 | 1,883 | **49,770** | 78,200 |
| Fundraising expense | | | 9,693 | 9,693 | **9,693** | 150 |
| Donated materials (Note 12) | | 8,782 | | 8,782 | **8,782** | 171,892 |
| Dues and subscriptions | 5,427 | | | - | **5,427** | 10,089 |
| Miscellaneous | 2,541 | | 52 | 52 | **2,593** | 15,788 |
| Postage | 153 | 1,309 | 84 | 1,393 | **1,546** | 324 |
| Fees and penalties | | | | - | **-** | 52 |
| **TOTAL 2023 FUNCTIONAL EXPENSES** | **$ 10,876,772** | **$ 1,578,275** | **$ 374,666** | **$ 1,952,941** | **$ 12,829,713** | |
| TOTAL 2022 FUNCTIONAL EXPENSES | $ 8,622,334 | $ 1,291,526 | $ 390,244 | $ 1,681,770 | | $ 10,304,104 |

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, 2023
With comparative totals for the year ended June 30, 2022

| | 2023 | 2022 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Change in net assets | $ 763,680 | $ 1,500,418 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 68,521 | 66,374 |
| Forgiveness of refundable government grant | - | (605,492) |
| Donated investments | - | (1,909,310) |
| Investment (income) loss, net | (129,265) | 357,135 |
| Amortization of the right-of-use assets - operating leases | 217,569 | - |
| (Increase) decrease in operating assets: | | |
| Accounts and grants receivable | (460,043) | (376,859) |
| Pledge receivable | - | 1,650,274 |
| Prepaid expenses | (117,850) | (18,228) |
| Deposits | (84,793) | (3,200) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (1,480) | 99,010 |
| Deferred revenue | 77,861 | - |
| Lease liability reduction - operating leases | (169,306) | - |
| Accrued liabilities | 56,168 | (250,058) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 221,062 | 510,064 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Sales of investments | 33,699 | |
| Purchase of investments | (55,019) | |
| Purchase of property and equipment | (61,364) | - |
| **NET CASH (USED) BY INVESTING ACTIVITIES** | (82,684) | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Payments on notes payable | (13,743) | (13,028) |
| **NET CASH (USED) BY FINANCING ACTIVITIES** | (13,743) | (13,028) |
| **NET INCREASE IN CASH** | 124,635 | 497,036 |
| **CASH, BEGINNING OF YEAR** | 1,359,151 | 862,115 |
| **CASH, END OF YEAR** | $ 1,483,786 | $ 1,359,151 |
| **NON-CASH OPERATING ACTIVITIES:** | | |
| Right-of-use assets/liabilities - operating upon adoption of ASC 842 | $ 2,459,494 | $ - |

The accompanying notes are an integral part of these 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 the 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 houselessness. 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.

continued

## 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, 2023 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.

continued

**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, 2023, 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, 2023, Alcott recognized DMH revenue of $3,315,141 and DHS revenue of $9,522,724. Revenue from these two sources, as a percentage of total revenue, was 24% and 70%, 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

**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, 2023, Alcott recorded $8,782 of donated materials that met the criteria for recognition. (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.

**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**

Alcott adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which is effective for fiscal years beginning after December 15, 2021, and requires lessees to recognize leases on the Statement of Financial Position and disclose key information about leasing arrangements. Alcott elected not to restate the comparative period (fiscal year 2022). Alcott also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases, as allowed by the standard. As a result of implementing ASU No. 2016-02, Alcott recognized Right-of-Use ("ROU") assets of $2,459,494 and lease liabilities totaling $2,459,494 in its Statement of Financial Position as of July 1, 2022. The discount rate used to record the ROU assets and lease liabilities at the transition date of July 1, 2022, was 3.88%. The adoption did not result in a significant effect on amounts reported in the Statement of Activities for the year ended June 30, 2023.

**Leases**

Alcott applies Accounting Standards Codification ("ASC") *842, Leases*, in determining whether an arrangement is or contains a lease at the lease inception. An arrangement is considered to include a lease if it conveys the right to control the use of identified property, plant or equipment for a period of time in excess of twelve months in exchange for consideration. Alcott defines control of the asset as the right to obtain substantially all of the economic benefits from use of the identified asset as well as the right to direct the use of the identified asset. Alcott further determines the existing leases are operating leases, which are included in ROU assets and leases liabilities separately in the Statement of Financial Position.

**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.

continued

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

### 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, 2022, from which the summarized information was derived.

## 3. Liquidity and Availability of Resources

Alcott has $4,973,243 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, 2023, 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 | $1,483,786 |
| Accounts and grants receivable | 1,807,349 |
| Investments | 1,702,760 |
| Financial assets at year-end | 4,993,895 |
| Less: assets unavailable for general expenditures: | |
| Client trust accounts (see Note 6) | (20,652) |
| Financial assets available to meet cash needs for general expenditures within one year | $4,973,243 |

Alcott also has in place fee-for-service government contracts which could produce approximately $10 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 $6 million in earned revenue to also cover general expenditures within the next year.

## 4. Investments

Investments at June 30, 2023 consists of the following:

| | |
|---|---|
| Equities | $ 904,930 |
| Fixed income | 465,955 |
| Money market funds | 227,127 |
| Other | 70,217 |
| Real assets | 34,531 |
| | $1,702,760 |

## 5. Property and Equipment

Property and equipment at June 30, 2023 consist of the following:

| | |
|---|---|
| Leasehold improvements | $ 370,336 |
| Vehicles | 180,600 |
| Equipment and furnishings | 118,156 |
| Government owned assets-leasehold improvements | 2,457 |
| | 671,549 |
| Less: accumulated depreciation | (487,206) |
| | 184,343 |
| Less: government owned asset liability (for right of reversion) | (2,457) |
| Total property and equipment, net | $ 181,886 |

Depreciation expense, on owned assets, for the year ended June 30, 2023 was $68,522.

## 6. Accrued Liabilities

Accrued liabilities at June 30, 2023 consist of the following:

| | |
|---|---|
| Accrued vacation | $177,418 |
| Other liabilities | 123,843 |
| Accrued payroll | 110,236 |
| Due to clients (see Note 3) | 20,652 |
| | $432,149 |

continued

## 7. Notes Payable

Notes payable at June 30, 2023 consist of the following:

| | |
|---|---|
| Note payable to a corporation, secured by a vehicle, bearing simple interest at 5.59%, monthly payments of $366, due April 2024. | $1,623 |
| Note payable to a corporation, secured by a vehicle, bearing simple interest at 1.9%, monthly payments of $441, due October 2023. | 455 |
| | $2,078 |

Maturities for the notes payable are as follows:

| Year ending June 30, | |
|---|---|
| 2024 | $2,078 |
| | $2,078 |

## 8. Fair Value Measurements

The table below presents transactions measured at fair value on a recurring basis during the year ended June 30, 2023:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equities | $ 904,930 | $ - | $ - | **$ 904,930** |
| Fixed income | 465,955 | | | **465,955** |
| Money market funds | 227,127 | | | **227,127** |
| Other | 70,217 | | | **70,217** |
| Real assets | 34,531 | | | **34,531** |
| | $1,702,760 | $ - | $ - | **$1,702,760** |

The fair values of equities, fixed income, money market funds, other, and real assets 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, 2023:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Contributed materials | $ - | $8,782 | $ - | **$8,782** |

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).

continued

## 9. Right-of-Use Assets and Lease Liabilities – Operating Leases

Alcott evaluated current contracts to determine which met the criteria of a lease. ROU assets represent Alcott's ROU underlying assets for the lease term, and the lease liabilities represent Alcott's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. Alcott used the rate implicit in the lease, if it is determinable. When the rate implicit in the lease is not determinable, Alcott uses the risk-free rate of return at the lease commencement date to determine the present value of the future lease payments. Lease terms, in the calculations, may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense is recognized on a straight-line basis over the lease term.

Alcott is obligated under various operating lease agreements, which expire at various dates through June 2026 for office facilities, vehicles and equipment. The terms of the office lease agreement provide for payment of minimum annual rental payments, with fixed increases.

The weighted average of remaining lease terms and weighted average of discount rates for operating leases as of June 30, 2023 were 35.75 months and 3.88%, respectively.

Cash paid for the operating leases for the year ended June 30, 2023 was $184,022. There were no non-cash financing transactions related to leasing during the year ended June 30, 2023.

Future maturities under operating leases are as follows:

| | |
|---|---|
| Year ending June 30, | |
| 2024 | $ 892,635 |
| 2025 | 767,670 |
| 2026 | 757,707 |
| | 2,418,012 |
| Less: present value discount | (127,824) |
| | $2,290,188 |

Lease expense under operating leases for the year ended June 30, 2023 was $232,286.

Amortizations under operating and financing leases are as follows:

| | |
|---|---|
| ROU assets balances, as of July 1, 2022 | $ - |
| Add: auditions | 2,459,494 |
| Less: amortization | (217,569) |
| ROU assets balances, as of June 30, 2023 | $2,241,925 |

continued

## 10. Commitments and Contingencies

### Government Grants and 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, 2023, Alcott completed interim settlements for its DMH contract year 2020-2021. The net effect of the settlement resulted in additional contract revenue of $48,750 related to the prior-year contract, which is shown on Statement of Activities as of June 30, 2023 as "prior-year DMH contract settlement". Receivable related this interim settlement was reconciled as of June 30, 2023. As of June 30, 2023, a receivable of $292,861 remained outstanding related to the interim settlement of contract year 2020-2021 and was included in accounts receivable at June 30, 2023.

### Paycheck Protection Program Loan

The Small Business Association ("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. Paycheck Protection Program ("PPP") loan documentation should be retained for six years after the date the loan is forgiven or repaid in full.

### Litigations

In April 2023, Alcott was named as a defendant of a wage and hour claims lawsuit brought forth by a former employee. These claims are currently awaiting mediation. Alcott cannot reasonably estimate the potential financial impact of these claims until mediation proceedings conclude. However, based on the information currently available, management believes that the ultimate resolution of these matters will not have a material adverse effect on Alcott's financial position or results of operations.

## 11. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2023 consist of assets restricted for the following:

| | |
|---|---:|
| Fund to reduce barriers around housing community members | $ 78,571 |
| Passenger vans purchase | 50,600 |
| Others | 37,836 |
| | $167,007 |

continued

**12. Contributed materials**

Alcott received donations of goods/materials from various donors. Donated materials received for the year ended June 30, 2023 were as follows:

| | |
|---|---|
| Art | $3,150 |
| Other goods | 2,759 |
| Equipment | 800 |
| Gift certificates | 730 |
| Health products | 700 |
| Food | 643 |
| Total | $8,782 |

The donated items were used as part of Alcott's fundraising efforts. The contributed materials 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 contributed materials 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, 2023 were $61,049.

**14. Subsequent Events**

Litigation

In September 2023, as of the reporting date, Alcott is engaged in pending litigation concerning alleged wage and hour claims and wrongful termination claims. Alcott is actively engaged in the mediation process to seek resolution of these claims. However, the outcome of the mediation process and the potential impact on the Alcott's financial position and results of operations cannot be reasonably estimated at this time.

California Advancing and Innovating Medi-Cal ("CalAIM") Behavioral Health ("BH") Payment Reform ("the Reform")

Effective July 1, 2023, the Reform altered, among other things, the reimbursement structure and provider claiming and billing of specialty behavioral health services for all BH providers, in California, including Alcott, as follows:

continued

**14. Subsequent Events**, continued

i. Reimbursement structure – cost-based reimbursement ended effective June 30, 2023, and a fee-for service model was implemented effective July 1, 2023.

ii. Provider claiming and billing – claiming and billing for services transitioned to align with other healthcare delivery systems to comply with Centers for Medicare & Medicaid services ("CMS") requirements. Utilization of the Health Care Common Procedure Coding System ("HCPCS") Level II codes utilized under cost-based reimbursement were eliminated and transitioned to Current Procedural Terminology ("CPT")/HCPCS Level 1 codes.

Accordingly, the Reform transitions providers to fee for service payments, with significant modifications in claim billing presentation and documentation for adjudication.

Management has evaluated subsequent events through June 26, 2024, 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, 2023, 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 26, 2024.

**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 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 or significant deficiencies may exist that were not identified.

**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*.

**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 26, 2024