HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION

JUNE 30, 2024

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C O N T E N T S

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, 2024, 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, 2024, 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.

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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' 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2025, on our consideration of Alcott Center for Mental Health Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Alcott Center for Mental Health Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alcott Center for Mental Health Services' internal control over financial reporting and compliance.

Harrington Group

Pasadena, California
September 4, 2025

ALCOTT CENTER FOR MENTAL HEALTH SERVICES

STATEMENT OF FINANCIAL POSITION
June 30, 2024
With comparative totals at June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	2024	2023
ASSETS				
CURRENT				
Cash	$ 2,035,795	$ 104,805	**$ 2,140,600**	$ 1,483,786
Accounts and grants receivable	2,567,714		**2,567,714**	1,807,349
Prepaid expenses	205,166		**205,166**	149,980
Investments (Note 4)	1,917,264		**1,917,264**	1,702,760
Right-of-use assets - operating leases (Note 8)	818,542		**818,542**	892,237
Right-of-use assets - financing leases (Note 8)	7,268		**7,268**	-
Total current assets	7,551,749	104,805	**7,656,554**	6,036,112
NON-CURRENT				
Deposits	129,763		**129,763**	133,993
Property and equipment, net (Note 5)	255,127		**255,127**	181,886
Right-of-use assets - operating leases (Note 8)	823,986		**823,986**	1,349,688
Right-of-use assets - financing leases (Note 8)	12,140		**12,140**	-
Total non-current assets	1,221,016	-	**1,221,016**	1,665,567
TOTAL ASSETS	$ 8,772,765	$ 104,805	**$ 8,877,570**	$ 7,701,679
LIABILITIES AND NET ASSETS				
LIABILITIES				
CURRENT				
Accounts payable	$ 274,860	$ -	**$ 274,860**	$ 143,394
Accrued liabilities (Note 6)	628,379		**628,379**	432,149
Notes payable			**-**	2,078
Deferred revenue	119,106		**119,106**	77,861
Lease liabilities - operating leases (Note 8)	838,717		**838,717**	892,635
Lease liabilities - financing leases (Note 8)	7,268		**7,268**	-
Total current liabilities	1,868,330	-	**1,868,330**	1,548,117
NON-CURRENT				
Lease liabilities - operating leases (Note 8)	873,891		**873,891**	1,397,553
Lease liabilities - financing leases (Note 8)	12,140		**12,140**	-
Total non-current liabilities	886,031	-	**886,031**	1,397,553
TOTAL LIABILITIES	2,754,361	-	**2,754,361**	2,945,670
NET ASSETS				
Without donor restrictions	6,018,404		**6,018,404**	4,589,002
With donor restrictions (Note 10)		104,805	**104,805**	167,007
TOTAL NET ASSETS	6,018,404	104,805	**6,123,209**	4,756,009
TOTAL LIABILITIES AND NET ASSETS	$ 8,772,765	$ 104,805	**$ 8,877,570**	$ 7,701,679

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, 2024
With comparative totals for the year ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	2024	2023
REVENUE AND SUPPORT				
Government contract revenue	$ 14,484,816	$ -	**$ 14,484,816**	$ 12,837,866
Contributions	155,112	156,526	**311,638**	438,887
Investment income, net	172,707		**172,707**	125,003
Other revenue	148,132		**148,132**	106,504
Interests and dividends	56,785		**56,785**	27,601
Donated materials (Note 11)	26,484		**26,484**	8,782
Net assets released from program restrictions	218,728	(218,728)	**-**	-
TOTAL REVENUE AND SUPPORT	15,262,764	(62,202)	**15,200,562**	13,544,643
EXPENSES				
Program services	11,264,238		**11,264,238**	10,876,772
Support services	2,520,374		**2,520,374**	1,952,941
TOTAL EXPENSES	13,784,612	-	**13,784,612**	12,829,713
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	1,478,152	(62,202)	**1,415,950**	714,930
OTHER CHANGES				
Prior-year Department of Mental Health (DMH) contract settlements (Note 9)	(48,750)		**(48,750)**	48,750
TOTAL OTHER CHANGES	(48,750)	-	**(48,750)**	48,750
CHANGE IN NET ASSETS	1,429,402	(62,202)	**1,367,200**	763,680
NET ASSETS, BEGINNING OF YEAR	4,589,002	167,007	**4,756,009**	3,992,329
NET ASSETS, END OF YEAR	$ 6,018,404	$ 104,805	**$ 6,123,209**	$ 4,756,009

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, 2024
With comparative totals for the year ended June 30, 2023

	Mental Health	Housing	Health Neighborhood Program Services	Total Program Services
Salaries and wages	$ 2,121,855	$ 4,313,891	$ 180,000	$ 6,615,746
Benefits and payroll taxes	378,263	837,075	2,692	1,218,030
Total personnel expenses	2,500,118	5,150,966	182,692	7,833,776
Professional fees and contract services	579,707	326,808		906,515
Rent	248,445	372,693		621,138
Program supplies and activities	406,108	166,079		572,187
Office expenses	62,318	137,142		199,460
Food	993	359,055		360,048
Insurance	78,739	187,408		266,147
Auto	40,564	76,081		116,645
Telephone	9,403	16,937		26,340
Repairs and maintenance	29,232	66,807		96,039
Utilities	14,368	73,782		88,150
Depreciation	48,459	27,216		75,675
Taxes and licenses	27,771	25,797		53,568
Bad debt expense	31,274			31,274
Donated materials (Note 11)	810			810
Miscellaneous	3,199	11,885		15,084
Fundraising expense				-
Dues and subscriptions	795			795
Postage	176	411		587
TOTAL 2024 FUNCTIONAL EXPENSES	**$ 4,082,479**	**$ 6,999,067**	**$ 182,692**	**$ 11,264,238**
TOTAL 2023 FUNCTIONAL EXPENSES	$ 3,027,794	$ 7,836,398	$ 12,580	$ 10,876,772

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, 2024
With comparative totals for the year ended June 30, 2023
continued

	Total Program Services	Support Services: General and Administrative	Support Services: Fundraising	Total Support Services	Total Expenses 2024	Total Expenses 2023
Salaries and wages	$ 6,615,746	$ 809,065	$ 209,231	$ 1,018,296	**$ 7,634,042**	$ 6,791,908
Benefits and payroll taxes	1,218,030	114,985	39,684	154,669	**1,372,699**	1,348,887
Total personnel expenses	7,833,776	924,050	248,915	1,172,965	**9,006,741**	8,140,795
Professional fees and contract services	906,515	294,264	1,601	295,865	**1,202,380**	1,276,266
Rent	621,138	515,649	7,573	523,222	**1,144,360**	651,485
Program supplies and activities	572,187	19,385	2,666	22,051	**594,238**	684,274
Office expenses	199,460	252,396	14,800	267,196	**466,656**	948,981
Food	360,048	8,940	869	9,809	**369,857**	391,710
Insurance	266,147	24,584	7,830	32,414	**298,561**	49,770
Auto	116,645	4,236		4,236	**120,881**	62,520
Telephone	26,340	91,670	681	92,351	**118,691**	120,522
Repairs and maintenance	96,039	22,337	275	22,612	**118,651**	160,928
Utilities	88,150	28,651	1,096	29,747	**117,897**	197,199
Depreciation	75,675	7,226		7,226	**82,901**	68,522
Taxes and licenses	53,568	6,424		6,424	**59,992**	48,700
Bad debt expense	31,274				**31,274**	
Donated materials (Note 11)	810	25,674		25,674	**26,484**	8,782
Miscellaneous	15,084	832	2,916	3,748	**18,832**	2,593
Fundraising expense	-		2,250	2,250	**2,250**	9,693
Dues and subscriptions	795	1,364		1,364	**2,159**	5,427
Postage	587	1,180	40	1,220	**1,807**	1,546
TOTAL 2024 FUNCTIONAL EXPENSES	**$ 11,264,238**	**$ 2,228,862**	**$ 291,512**	**$ 2,520,374**	**$ 13,784,612**	
TOTAL 2023 FUNCTIONAL EXPENSES	$ 10,876,772	$ 1,578,275	$ 374,666	$ 1,952,941		$ 12,829,713

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, 2024
With comparative totals for the year ended June 30, 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,367,200	$ 763,680
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	82,901	68,522
Reinvested interest and dividends	(56,785)	(27,601)
Investment (income), net	(172,707)	(101,664)
Amortization of right-of-use assets - operating leases	922,134	217,569
Amortization of right-of-use assets - finance leases	2,636	-
(Increase) decrease in operating assets:		
Accounts and grants receivable	(760,365)	(460,043)
Prepaid expenses	(55,186)	(117,850)
Deposits	4,230	(84,793)
Increase (decrease) in operating liabilities:		
Accounts payable	131,466	(1,480)
Deferred revenue	41,245	77,861
Reduction of right-of-use liabilities - operating leases	(900,317)	(169,306)
Accrued liabilities	196,230	56,168
NET CASH PROVIDED BY OPERATING ACTIVITIES	802,682	221,063
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of investments	464,417	33,699
Purchase of investments	(449,429)	(55,019)
Purchase of property and equipment	(156,142)	(61,365)
NET CASH (USED) BY INVESTING ACTIVITIES	(141,154)	(82,685)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on finance leases	(2,636)	-
Payments on notes payable	(2,078)	(13,743)
NET CASH (USED) BY FINANCING ACTIVITIES	(4,714)	(13,743)
NET INCREASE IN CASH	656,814	124,635
CASH, BEGINNING OF YEAR	1,483,786	1,359,151
CASH, END OF YEAR	$ 2,140,600	$ 1,483,786
NON-CASH OPERATING ACTIVITIES:		
Right-of-use assets and liabilities - operating under the continuous implementation of ASC 842	$ 249,474	$ -
Right-of-use assets and liabilities - financing under the continuous implementation of ASC 842	$ 22,348	$ -
Right-of-use assets and 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, 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.

Westside 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 westside of Los Angeles.

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, primarily related to government contracts, are evaluated in accordance with the Current Expected Credit Losses (CECL) standard. Management estimates expected credit losses by considering historical collection experience, current conditions, and reasonable and supportable forecasts. As of June 30, 2024, management determined expected credit losses to be immaterial; accordingly, no allowance for credit losses 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, 2024, 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, 2024, Alcott recognized DMH revenue of $4,707,157 and DHS revenue of $9,101,959. Revenue from these two sources, as a percentage of total revenue, was 31% and 60%, 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 notification of a beneficial interest is received. Conditional promises to give—that is, those with measurable performance or other barriers and a right of return—are not recognized until conditions on which they depend have been substantially met or explicitly waived.

Revenue from Alcott's cost reimbursement contracts is recognized as costs are incurred in the performance of the contract. Fee-for-service contract revenue, including under the Los Angeles County DMH contract, is recognized when the related services are delivered in accordance with the contract terms. The DMH contract contains certain expenditure restrictions and budget caps. Alcott evaluates these restrictions and recognizes revenue based on allowable costs incurred, capped at the respective program maximums.

Management assesses whether grants and contracts qualify as contributions (nonexchange transactions) or as exchange transactions under Accounting Standards Codification (ASC) 958 and ASC 606, respectively, in order to apply appropriate revenue recognition criteria.

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, 2024, Alcott recorded $26,484 of donated materials that met the criteria for recognition. (see Note 11).

Income Taxes

Alcott is exempt from federal taxation under Internal Revenue Code Section 501(c)(3) and from California state taxation under California Revenue and Taxation Code Section 23701d. In accordance with Accounting Standards Codification Topic 740, Income Taxes (ASC 740), management has evaluated Alcott's tax positions taken in its federal and state exempt organization tax returns. Management believes that all tax positions are more likely than not to be sustained upon examination by taxing authorities.

Alcott's tax returns are subject to examination by federal and state tax authorities, generally within three years for federal and four years for state filings after submission. There are no unrecognized tax benefits or uncertain tax positions requiring recognition or disclosure at June 30, 2024.

2. Summary of Significant Accounting Policies, continued

Should there be any changes in tax positions or uncertainties, Alcott will disclose such items in accordance with ASC 740, including any interest or penalties accrued related to uncertain tax positions, as applicable.

Functional Allocation of Expenses

Costs of providing Alcott's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Alcott uses square footage and payroll hours to allocate indirect costs.

Recently Adopted Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduces a new impairment model, the current expected credit loss (CECL) model. The model applies to most assets that are measured at amortized cost and requires those assets to be presented at the net amount expected to be collected. In addition, credit losses on available-for-sale debt securities are to be recognized through an allowance account. ASU 2016-13 also expands existing disclosure requirements. For nonpublic entities, ASU 2019-10 delayed the effective date of ASU 2016-13, and related subsequent ASUs, to fiscal years beginning after December 15, 2022. Management has determined that the adoption did not have a significant impact on the amounts reported in the financial statements for the year ended June 30, 2024.

Leases

The Alcott determines if an arrangement is or contains a lease at inception. Leases are included in Right-of-Use ("ROU") assets and lease liabilities in the consolidated statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. Alcott does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

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, 2023, from which the summarized information was derived.

3. Liquidity and Availability of Resources

Alcott has $6,507,721 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, 2024, 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, net of restrictions	$2,035,795
Accounts and grants receivable, net	2,567,714
Investments	1,917,264
Financial assets at year-end	6,520,773
Less: assets unavailable for general expenditures:	
Client trust accounts (see Note 6)	(13,052)
Financial assets available to meet cash needs for general expenditures within one year	$6,507,721

Alcott also has in place fee-for-service government contracts which could produce approximately $16 million in earned revenue to cover general expenditures within the next year.

4. Investments

Investments at June 30, 2024 consists of the following:

Equities	$1,304,042
Fixed income	470,404
Cash and cash equivalents	85,404
Real assets	57,414
	$1,917,264

continued

5. Property and Equipment

Property and equipment at June 30, 2024 consist of the following:

Leasehold improvements	$ 387,434
Vehicles	230,153
Equipment and furnishings	207,647
	825,234
Less: accumulated depreciation	(570,107)
Total property and equipment, net	$ 255,127

Depreciation expense, on owned assets, for the year ended June 30, 2024 was $82,901.

6. Accrued Liabilities

Accrued liabilities at June 30, 2024 consist of the following:

Accrued vacation	$255,851
Accrued payroll	194,895
Other liabilities	115,899
CGF Reserve	48,682
Due to clients (see Note 3)	13,052
	$628,379

7. 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	$1,304,042	$ -	$ -	**$1,304,042**
Fixed income	470,404			**470,404**
Cash and cash equivalents	85,404			**85,404**
Real assets	57,414			**57,414**
	$1,917,264	$ -	$ -	**$1,917,264**

The fair values of equities, fixed income, cash and cash equivalents, 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, 2024:

	Level 1	Level 2	Level 3	Total
Contributed materials	$ -	$26,484	$ -	**$26,484**

continued

7. Fair Value Measurements, continued

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).

8. Right-of-Use Assets and Lease Liabilities – Operating/Financing 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. Alcott's financing leases consist of vehicles. The terms of the office lease agreement provide for payment of minimum annual rental payments, with fixed increases.

Cash paid for the operating leases for the year ended June 30, 2024 was $901,913. During the year ended June 30, 2024, Alcott recognized non-cash financing activities related to leasing, including $249,474 in new ROU assets and corresponding lease liabilities for operating leases, and $22,348 for financing leases.

	Operating	**Financing**
Weighted average remaining lease terms	2.83 years	2.58 years
Weighted average discount rate:	4.06%	4.14%

Future maturities under operating and financing leases are as follows:

Year ending June 30,	**Operating**	**Financing**
2025	$ 889,654	$ 7,907
2026	890,303	7,907
2027	-	4,613
	1,779,957	20,427
Less: Present value discount	(67,348)	(1,019)
	$1,712,609	$19,408

continued

8. Right-of-Use Assets and Lease Liabilities – Operating/Financing Leases, continued

Amortizations under operating and financing leases are as follows:

	Operating	Financing
ROU assets balances, as of July 1, 2023	$2,241,925	$ -
Add: Additions	249,474	22,348
Less: Amortization	(848,870)	(2,940)
ROU assets balances, as of June 30, 2024	$1,642,529	$19,408

As of June 30, 2024, the components of ROU assets under operating and financing leases are as follows:

	Operating	Financing
Current portion	$ 818,542	$ 7,268
Non-current portion	823,987	12,140
Total	$1,642,529	$19,408

As of June 30, 2024, the components of ROU lease liabilities under operating and financing leases are as follows:

	Operating	Financing
Current portion	$ 838,717	$ 7,268
Non-current portion	873,891	12,140
Total	$1,712,608	$19,408

Sublease income:

During the year ended June 30, 2024, sublease revenue was $120,000 which is included in the Statement of Activities.

Future minimum sublease income is as follows:

Year ending June 30,	
2025	$20,000

9. 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.

continued

9. Commitments and Contingencies, continued

In the year ended June 30, 2024, Alcott completed interim settlements for its DMH contract year 2022-2023. As a result of the settlement, there was a reduction in contract revenue of ($48,750) related to the prior-year contract, which is shown on Statement of Activities as of June 30, 2024 as "prior- year DMH contract settlement". Receivable related this interim settlement was reconciled as of June 30, 2024. As of June 30, 2024, a receivable of $186,028 remained outstanding related to the interim settlement of contract year 2022-2023 and was included in accounts receivable at June 30, 2024.

Litigations

Alcott is involved in legal proceedings in the normal course of business, including some claims under PAGA. The outcomes of these matters are currently uncertain, and no reasonable estimate of potential impact is available at this time. (see Note 13).

10. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2024 consist of assets restricted for the following:

IT and stipends	$ 59,805
Time restriction	25,000
Data specialist position	20,000
	$104,805

For the year ended June 30, 2024, net assets released were $218,728 for purpose restrictions satisfied.

11. Contributed materials

Alcott received donations of goods/materials from various donors. Donated materials received for the year ended June 30, 2024 were as follows:

Supplies	$17,121
Advertisement	6,320
Food	1,793
Equipment	500
Gift certificates	450
Food	300
Total	$26,484

The donated items were used as part of Alcott's mental health program, and general and administrative. 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.

12. 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 6% of the employee contributions. Employer contributions under this plan for the year ended June 30, 2024 were $101,026.

13. Subsequent Events

In July and October 2024, Alcott was named in two employment-related legal actions, including claims under PAGA. Both matters are currently pending mediation. At this time, no reasonable estimate of potential financial impact is available.

Management has evaluated subsequent events through September 4, 2025, 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

HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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, 2024, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 4, 2025.

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
September 4, 2025