



**ALUM ROCK COUNSELING CENTER, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2019**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Alum Rock Counseling Center, Inc.  
San Jose, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Alum Rock Counseling Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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.

### ***Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alum Rock Counseling Center, Inc. as of June 30, 2019, 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.



Abbott, Stringham & Lynch

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## **Other Matters**

### *Supplementary information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of State and Local Awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020 on our consideration of Alum Rock Counseling Center, Inc.'s 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 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 Alum Rock Counseling Center, Inc.'s internal control over financial reporting and compliance.

*Abbott, Stringham & Lynch*

October 30, 2020

# ALUM ROCK COUNSELING CENTER, INC.

## STATEMENT OF FINANCIAL POSITION

June 30, 2019

### Assets

#### Current assets:

|                                      |               |
|--------------------------------------|---------------|
| Cash and cash equivalents            | \$ 2,468,741  |
| Accounts receivable                  | 1,856,442     |
| Pledges and contributions receivable | 71,230        |
| Prepaid expenses and deposits        | <u>81,168</u> |

Total current assets 4,477,581

|                             |               |
|-----------------------------|---------------|
| Property and equipment, net | 6,500         |
| Deposits                    | <u>22,597</u> |

\$ 4,506,678

### Liabilities and Net Assets

#### Current liabilities:

|                             |                  |
|-----------------------------|------------------|
| Accounts payable            | \$ 83,332        |
| Accrued liabilities         | 575,988          |
| Accrued contingency reserve | <u>2,756,720</u> |

Total liabilities 3,416,040

#### Net assets:

|                            |                |
|----------------------------|----------------|
| Without donor restrictions | 985,444        |
| With donor restrictions    | <u>105,194</u> |

Total net assets 1,090,638

Total liabilities and net assets \$ 4,506,678

# ALUM ROCK COUNSELING CENTER, INC.

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total        |
|---|-------------------------------|----------------------------|--------------|
| Support and revenue                                   |                               |                            |              |
| Support:  |                               |                            |              |
| Contributions and grants                              | \$ 51,795                     | \$ 293,395                 | \$ 345,190   |
| Special events, net of direct expenses<br>of \$20,228 | 34,654                        | -                          | 34,654       |
| United Way  | 1,672                         | -                          | 1,672        |
| Total support   | 88,121                        | 293,395                    | 381,516      |
| Revenue:  |                               |                            |              |
| Program service fees                                  | 7,597,363                     | -                          | 7,597,363    |
| Interest income                                       | 22,536                        | -                          | 22,536       |
| Miscellaneous income                                  | 1,532                         | -                          | 1,532        |
| Total revenue   | 7,621,431                     | -                          | 7,621,431    |
| Net assets released from restrictions                 | 226,462                       | (226,462)                  | -            |
| Total support and revenue                             | 7,936,014                     | 66,933                     | 8,002,947    |
| Functional expenses:                                  |                               |                            |              |
| Program services:                                     |                               |                            |              |
| Counseling  | 2,693,466                     | -                          | 2,693,466    |
| Prevention and education                              | 2,275,960                     | -                          | 2,275,960    |
| Crisis  | 1,782,960                     | -                          | 1,782,960    |
| Total program services expenses                       | 6,752,386                     | -                          | 6,752,386    |
| Supporting services:                                  |                               |                            |              |
| Management and general                                | 1,096,568                     | -                          | 1,096,568    |
| Fundraising   | 159,179                       | -                          | 159,179      |
| Total functional expenses                             | 8,008,133                     | -                          | 8,008,133    |
| Change in net assets                                  | (72,119)                      | 66,933                     | (5,186)      |
| Net assets, beginning of year                         | 1,057,563                     | 38,261                     | 1,095,824    |
| Net assets, end of year                               | \$ 985,444                    | \$ 105,194                 | \$ 1,090,638 |

# ALUM ROCK COUNSELING CENTER, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019

|  | Program Services    |                             |                     |                              | Supporting Services       |                   |                                 |                     |
|--|---------------------|-----------------------------|---------------------|------------------------------|---------------------------|-------------------|---------------------------------|---------------------|
|  | Counseling          | Prevention and<br>Education | Crisis              | Total<br>Program<br>Services | Management<br>and General | Fundraising       | Total<br>Supporting<br>Services | Total               |
| Salaries                                     | \$ 1,991,798        | \$ 1,501,616                | \$ 1,298,840        | \$ 4,792,254                 | \$ 736,640                | \$ 85,178         | \$ 821,818                      | \$ 5,614,072        |
| Employee benefits                            | 149,896             | 162,570                     | 95,278              | 407,744                      | 65,584                    | 7,651             | 73,235                          | 480,979             |
| Payroll taxes                                | 167,412             | 129,215                     | 110,244             | 406,871                      | 57,458                    | 6,756             | 64,214                          | 471,085             |
| Total salary and<br>related expenses         | 2,309,106           | 1,793,401                   | 1,504,362           | 5,606,869                    | 859,682                   | 99,585            | 959,267                         | 6,566,136           |
| Professional services                        | 148,869             | 226,878                     | 108,439             | 484,186                      | 124,465                   | 40,928            | 165,393                         | 649,579             |
| Occupancy                                    | 109,471             | 83,282                      | 91,891              | 284,644                      | 42,938                    | 4,073             | 47,011                          | 331,655             |
| Supplies                                     | 21,344              | 57,353                      | 14,000              | 92,697                       | 20,896                    | 9,001             | 29,897                          | 122,594             |
| Travel                                       | 31,291              | 40,130                      | 12,164              | 83,585                       | 2,138                     | 273               | 2,411                           | 85,996              |
| Office expenses                              | 24,469              | 22,095                      | 18,275              | 64,839                       | 11,492                    | 1,383             | 12,875                          | 77,714              |
| Staff recruitment and training               | 16,194              | 12,005                      | 8,434               | 36,633                       | 5,748                     | 36                | 5,784                           | 42,417              |
| Insurance                                    | 13,268              | 10,181                      | 8,420               | 31,869                       | 4,833                     | 558               | 5,391                           | 37,260              |
| Dues and memberships                         | 8,102               | 7,930                       | 5,773               | 21,805                       | 7,154                     | 2,422             | 9,576                           | 31,381              |
| Equipment rent and<br>maintenance            | 7,952               | 5,746                       | 5,838               | 19,536                       | 4,219                     | 106               | 4,325                           | 23,861              |
| Meetings and conferences                     | 2,686               | 2,486                       | 3,542               | 8,714                        | 7,363                     | 121               | 7,484                           | 16,198              |
| Miscellaneous                                | 200                 | 14,290                      | 854                 | 15,344                       | 5,617                     | 20,921            | 26,538                          | 41,882              |
| Depreciation                                 | 514                 | 183                         | 968                 | 1,665                        | 23                        | -                 | 23                              | 1,688               |
| Total expenses                               | 2,693,466           | 2,275,960                   | 1,782,960           | 6,752,386                    | 1,096,568                 | 179,407           | 1,275,975                       | 8,028,361           |
| Less direct costs from<br>special events     | -                   | -                           | -                   | -                            | -                         | (20,228)          | (20,228)                        | (20,228)            |
| Total expenses on<br>Statement of Activities | <u>\$ 2,693,466</u> | <u>\$ 2,275,960</u>         | <u>\$ 1,782,960</u> | <u>\$ 6,752,386</u>          | <u>\$ 1,096,568</u>       | <u>\$ 159,179</u> | <u>\$ 1,255,747</u>             | <u>\$ 8,008,133</u> |

See accompanying independent auditor's report and notes to financial statements.

# ALUM ROCK COUNSELING CENTER, INC.

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

Increase (Decrease) in Cash and Cash Equivalents

|   |                            |
|---|----------------------------|
| Cash flows from operating activities:   |                            |
| Change in net assets  | \$ (5,186)                 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                            |
| Depreciation  | 1,688                      |
| Changes in operating assets and liabilities:  |                            |
| Accounts receivable   | (790,040)                  |
| Pledges and contributions receivable  | (66,280)                   |
| Prepaid expenses  | 19,505                     |
| Accounts payable  | (22,006)                   |
| Accrued liabilities   | 41,844                     |
| Accrued contingency reserve   | <u>406,861</u>             |
| Net cash used in operating activities   | (413,614)                  |
| Cash flows from investing activities:   |                            |
| Purchases of property and equipment   | <u>(4,499)</u>             |
| Net decrease in cash and cash equivalents   | (418,113)                  |
| Cash and cash equivalents at beginning of year  | <u>2,886,854</u>           |
| Cash and cash equivalents at end of year  | <u><u>\$ 2,468,741</u></u> |

# ALUM ROCK COUNSELING CENTER, INC.

## Notes to Financial Statements

June 30, 2019

### Note 1 - Nature of operations

Alum Rock Counseling Center, Inc. (the "Organization") is a public benefit, non-profit corporation incorporated in California in 1974. The Organization's mission is to heal families and inspire youth to reach their full potential.

The Organization's vision is communities where help and support services are accessible and prosperity is possible to have thriving neighborhoods that are safe: neighborhoods that truly celebrate cultural diversity. Our children will be eager and ready to become lifelong learners. Our families will be healthy - physically, mentally, and emotionally - and provided with a network of support services to fully meet their needs. Our community will be a place where individuality is appreciated and everyone is encouraged to reach their full potential. The Organization's values are: Integrity, Helping Others, Respect, Quality Work and Diversity. The Organization focuses on five areas of impact:

- Our youth and families have resources for overcoming behavioral health concerns including substance use and mental health challenges.
- All of our kids are kindergarten ready.
- Our youth graduate from middle school, high school and beyond.
- Our youth and families are free from involvement with the justice and/or social services systems.
- Our homes, schools and neighborhoods are safe - free of violence and dangerous behaviors.

Through staff, collaboration with other agencies, government grants, and with the assistance of public and private donations, the Agency offers a Continuum of Care that includes culturally and linguistically competent services including, all of which fall into one or more of the focus areas of Counseling, Crisis and/or Prevention and Education:

- **Children's Services (ages 0-5)** are offered through our First 5 program with comprehensive in-home parent coaching and therapeutic services including; developmental screenings, assessments, referrals, parenting education and coaching, individual and family therapy.
- **Prevention and Early Intervention Services** target high-risk youth and their families to reduce and/or eliminate mental health issues inhibiting academic success and family wellness.
- **Ocala Middle School Mentoring & Support** empowers youth (ages 11 -14), through group and one-on-one mentoring and practical life-skills training and practice, to avoid high-risk behaviors such as crime, substance abuse, adolescent pregnancy and truancy.
- **Mobile Crisis Response & Counseling** provides 24/7, face-to-face mobile crisis counseling as well as case management and aftercare services to youth and families who have been or are at-risk of being involved with the juvenile justice system.
- **Truancy Reduction Services**, a widespread, school-based program, promotes school achievement by addressing barriers to school attendance such as learning behaviors, family violence and socioeconomic stressors.
- **Counseling Internship Program** prepares tomorrow' s mental health practitioners to better understand and support the special needs of the high-risk, disenfranchised populations we serve by providing diverse, holistic training opportunities at home, in schools and clinics - one-on-one and in group settings.



# **ALUM ROCK COUNSELING CENTER, INC.**

## **Notes to Financial Statements**

June 30, 2019

### **Note 1 - Nature of operations (continued)**

- **Substance Use Prevention** provides life skills training and alternative activities for at risk youth, and information dissemination regarding substance use to community groups and events for all ages.
- **Outpatient Mental Health Services** provides counseling services for youth aged 6-17 and their families in the ARCC clinic and community.
- **Therapeutic Behavioral Services** provides behavioral support for children and youth, and parent support for high-risk children.

### **Note 2 - Summary of significant accounting policies**

#### **Basis of presentation**

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### **Financial statement presentation**

Under GAAP, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category are as follows:

Without donor restrictions - net assets that are not subject to donor-imposed restrictions and include undesignated net assets. The only limits on undesignated net assets are broad limits resulting from the nature of the Organization and the purposes specified in its articles of incorporation or bylaws.

With donor restrictions - net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. Includes resources currently available for use, but expendable only for those operating purposes specified by the donor or funding source. Resources of this fund originate from gifts, grants, and bequests.

#### **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include the allowance for doubtful accounts, accrued contingency reserve, estimated useful lives of property and equipment, and the allocation of functional expenses. Actual results could differ from those estimates.

# **ALUM ROCK COUNSELING CENTER, INC.**

## **Notes to Financial Statements**

June 30, 2019

### **Note 2 - Summary of significant accounting policies (continued)**

#### **Cash and cash equivalents**

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less.

#### **Accounts receivable**

Accounts receivable consist primarily of amounts billed for services provided, and are stated at the amounts management expects to collect on outstanding balances. The Organization extends unsecured credit in the ordinary course of operations and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on management's assessment of the status of individual accounts. Balances that are still outstanding after management has made reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management determined no allowance for doubtful accounts was necessary at June 30, 2019.

#### **Pledges and contributions receivable**

The Organization records pledges and grants receivable when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was made and received. Unconditional promises to give that are expected to be collected in future years are recognized at fair value based on discounted cash flows. The discount on these amounts is computed using the rate applicable in the year the promises were received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the original contribution.

The Organization makes estimates as to the ability to collect all of its outstanding receivables and provides allowances for amounts when collection becomes doubtful. Provisions, if necessary, are made based upon a specific review of past due and other outstanding balances for which collection is considered uncertain. At June 30, 2019, the Organization has not recorded a provision for uncollectible receivables.

#### **Fair value**

The Organization has adopted fair value accounting guidance for all applicable assets and liabilities to define fair value, establish a framework for measuring fair value, and enhance fair value measurement disclosure.

#### **Property, equipment and depreciation**

Property and equipment are recorded at cost, if purchased, or fair value at the date of donation, if donated. It is the Organization's policy to capitalize acquisitions in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from five to thirty years. Gifts of property and equipment are reported as support without donor restrictions unless the donor stipulates specifically how the donated asset must be used. Expenditures for maintenance and repairs are charged to operations as incurred, while renewals and betterments are capitalized.

# **ALUM ROCK COUNSELING CENTER, INC.**

## **Notes to Financial Statements**

June 30, 2019

### **Note 2 - Summary of significant accounting policies (continued)**

#### **Support and revenue**

The Organization receives cost reimbursement contract revenue as well as fixed rate contract revenue. Revenue is recognized when the corresponding service has been provided according to the agreement, subject to the contract limit, if any. Under fixed rate contracts, the Organization agrees to provide certain services in specified quantities at a prescribed rate per unit of service provided. Certain contracts have provisions for annual settlements to provide for recovery of costs for service capacity required to be provided, but not utilized, and for repayment of amounts billed in excess of contract limits. Estimated settlements are accrued by the Organization as a receivable or accrued contingency reserve for contracts for which cost reports have not been approved by the funder.

#### **Functional allocation of expenses**

The costs of providing the various program services have been summarized on a functional basis in the accompanying Statement of Activities. Accordingly, expenses that are associated with more than one program or supporting service have been allocated, principally on an indirect cost basis, using personnel time studies and space utilized for the related activities, all among the various programs and supporting services.

#### **Tax-exempt status**

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of the State of California. Accordingly, no provisions for income taxes or related credits are included in these financial statements. The Organization is not a private foundation under Section 509(a)(i) and 170(b)(a)(vi) of the Internal Revenue Code.

The Organization has adopted the accounting standard related to uncertainties in income taxes. The Organization evaluates uncertain tax positions through its review of the source of revenue to identify unrelated business income and certain other matters, including those which may affect its tax exempt status. Management believes their estimates related to income tax uncertainties are appropriate based on the current facts and circumstances. The Organization is subject to examination by a major tax jurisdiction back to 2017.

#### **New accounting pronouncements not yet adopted**

In 2014 and through subsequent amendments, the FASB issued accounting guidance for reporting revenue from exchange transactions that is significantly different than previous guidance. The new guidance is effective for the Organization's year beginning July 2020. The five-step revenue-recognition process in the new guidance necessitates more judgment and estimation than under previous pronouncements, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In addition, new financial statement presentation related to contract assets and liabilities will be required, as well as additional financial statement disclosures related to the revenue recognition cycle. This new revenue recognition guidance may be applied using either a full retrospective or a modified retrospective approach upon adoption. The Organization is continuing to evaluate the impact of adopting the new standard on its results of operations and financial position, as well as the method it will use for adoption.

# **ALUM ROCK COUNSELING CENTER, INC.**

## **Notes to Financial Statements**

June 30, 2019

### **Note 2 - Summary of significant accounting policies (continued)**

#### **New accounting pronouncements not yet adopted (continued)**

In 2016 and through subsequent amendments, the FASB issued new accounting guidance for reporting leases, which requires an entity that is a lessee to classify leases as either finance or operating and to recognize a lease liability and a right-of-use asset for all leases that have a term of greater than 12 months. Leases of 12 months or less will be accounted for similar to existing guidance for operating leases. The new standard will be effective for annual reporting periods beginning with July 2022 with early adoption permitted, and must be applied using a modified retrospective approach. The Organization is currently evaluating the impact of adopting this standard on its financial statements and does not expect to adopt the new guidance earlier than required.

In 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year beginning July 1, 2023. The Organization is currently in the process of evaluating the impact of adoption of this ASU on its financial statements.

In 2020, the FASB issued accounting guidance focused on the presentation and disclosure requirements for contributed nonfinancial assets. The new guidance is effective for the Organization's year beginning July 2021. The new standard requires the entity to present contributed nonfinancial assets, such as property and equipment, food, supplies and intangible assets, as a separate line item on the statement of activities. In addition, the standard also requires enhanced disclosures including qualitative information about whether or not the contributed nonfinancial assets were utilized in a program or monetized; policies for monetizing those assets; descriptions of donor restrictions; and enhanced disclosure regarding the fair value techniques. Early adoption is permitted and the standard is to be applied retrospectively. The Organization is currently evaluating the impact of adopting this standard on its financial statements and does not expect to adopt the new guidance earlier than required.

#### **Subsequent events**

In preparing its financial statements, the Organization has evaluated subsequent events through October 30, 2020, which is the date the financial statements were available to be issued.

# ALUM ROCK COUNSELING CENTER, INC.

## Notes to Financial Statements

June 30, 2019

### Note 3 - Liquidity and availability of resources

The following table reflects the Organization's financial assets, reduced by amounts not available for general expenditure within one year from this date. Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2019 are as follows:

|  |                    |
|--|--------------------|
| Financial assets:  |                    |
| Cash and cash equivalents  | \$ 2,468,741       |
| Accounts receivable  | 1,856,442          |
| Pledges and contributions receivable                                     | <u>71,230</u>      |
| Financial assets, at June 30, 2019                                       | 4,396,413          |
| Less:  |                    |
| Cash designated for debt service (operating liabilities)                 | (659,320)          |
| Accrued contingency reserve  | <u>(2,756,720)</u> |
|  | <u>(3,416,040)</u> |
| Total financial assets and liquidity resources available within one year | <u>\$ 980,373</u>  |

The Organization maintains a line of credit with available borrowings of \$400,000 to cover any short-term working capital deficiencies.

### Note 4 - Property and equipment, net

Property and equipment consisted of the following at June 30, 2019:

|   |                  |
|---|------------------|
| Leasehold improvements                          | \$ 65,690        |
| Vehicles  | 43,577           |
| Office and computer equipment                   | 7,067            |
| Construction in process                         | <u>6,500</u>     |
|   | 122,834          |
| Less: accumulated depreciation and amortization | <u>(116,334)</u> |
|   | <u>\$ 6,500</u>  |

# ALUM ROCK COUNSELING CENTER, INC.

## Notes to Financial Statements

June 30, 2019

### Note 5 - Accrued liabilities

Accrued liabilities consisted of the following at June 30, 2019:

|                  |                   |
|------------------|-------------------|
| Accrued vacation | \$ 287,811        |
| Accrued wages    | 268,813           |
| Other            | <u>19,364</u>     |
|                  | <u>\$ 575,988</u> |

### Note 6 - Line of credit

The Organization has in place a \$400,000 line of credit, due on demand. The line of credit carries an interest rate of 2% over the bank's prime rate (7.50% at June 30, 2019). There were no borrowings against the line at June 30, 2019.

### Note 7 - Accrued contingency reserve

The Organization provides certain services for youth and their families under an agreement with the Santa Clara County Mental Health Department ("SCCMHD"). Subsequent to the close of each fiscal year covered in the agreement, the annual costs billed and reimbursed to the Organization are subject to audits by the SCCMHD and the State of California. The Organization has established a contingency account to reserve for the possibility of adjustment to the reimbursed amounts for years that are still open to State and SCCMHD audits. The accrued contingency balance represents balances for open years back to the fiscal year ended June 30, 2010. No audits were conducted by the State or SCCMHD during the year ended June 30, 2019, and the accrued contingency reserve totaled \$2,756,720 at June 30, 2019.

### Note 8 - Net assets with donor restrictions

Net assets released from donor restrictions by recurring expenses satisfying donor restricted purposes or by the expirations of those for the year ended June 30, 2019 are as follows:

|                                |                   |
|--------------------------------|-------------------|
| Time restrictions expired      | \$ 4,950          |
| Purpose restrictions fulfilled | <u>221,512</u>    |
|                                | <u>\$ 226,462</u> |

Net assets with donor restrictions at June 30, 2019 consisted of the following:

|                                     |                   |
|-------------------------------------|-------------------|
| Prevention, Education, and Wellness | \$ 91,509         |
| Crisis                              | 9,685             |
| Time restricted                     | <u>4,000</u>      |
|                                     | <u>\$ 105,194</u> |

# ALUM ROCK COUNSELING CENTER, INC.

## Notes to Financial Statements

June 30, 2019

### Note 9 - Operating leases

The Organization is obligated under various operating leases for office equipment, which expire through August 2023. Monthly payments are approximately \$1,000, and the Organization is subject to additional charges for any usage in excess of the limits outlined in the equipment lease agreements. Total expense incurred from these leases for the year ended June 30, 2019 was \$23,861.

The Organization occupies its administrative and program facilities under four agreements. One agreement expired April 30, 2019 and is currently on a month-to-month arrangement, as are the other three remaining agreements. Payments under the four agreements are approximately \$23,700 per month. Total rent expense for these facilities for the year ended June 30, 2019 was \$284,656.

The future minimum lease commitment for the equipment leases outlined above are as follows:

| For the<br>Years Ending<br>June 30, | Amount           |
|-------------------------------------|------------------|
| 2020                                | \$ 12,315        |
| 2021                                | 12,316           |
| 2022                                | 11,210           |
| 2023                                | 2,787            |
|                                     | <u>\$ 38,628</u> |

### Note 10 - Retirement plan

The Organization maintains a tax deferred 403(b) defined contribution salary reduction retirement plan to provide retirement benefits for all employees that allows for up to a 3% match of employee salary reduction contributions. For the year ended June 30, 2019, a total of \$70,108 was charged to operations under this plan.

### Note 11 - Concentrations, contingencies, risks and uncertainties

#### Concentrations

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and accounts receivable.

The Organization maintains its cash accounts with credit-worthy financial institutions. The Organization maintains its cash in bank deposit accounts, which, at times, may exceed the level insured by the Federal Deposit Insurance Corporation. As of June 30, 2019, the Organization has not experienced any losses on such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Receivables are due primarily from the performance of behavior health services. At June 30, 2019, receivables from one funding source amounted to approximately 93% of accounts receivable.

The Organization receives virtually all of its revenues from contracts with SCCMHD. SCCMHD is funded through the State of California. If SCCMHD terminated their support of the Organization, the Organization's ability to provide these services could be significantly impaired.

# **ALUM ROCK COUNSELING CENTER, INC.**

## **Notes to Financial Statements**

June 30, 2019

### **Note 11 - Concentrations, contingencies, risks and uncertainties (continued)**

#### **Contingencies**

The Organization is subject to other possible claims and lawsuits that may arise in the ordinary course of business activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, changes in net assets, and cash flows of the Organization.

#### **Risks and uncertainties**

As of October 2020, domestic and international economies face uncertainty related to the impact of the COVID-19 pandemic. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Organization's donors, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Organization's financial condition or results of operations is uncertain. The Organization received a Paycheck Protection Program (PPP) loan in April 2020, of \$1,410,000, which may be forgiven if spent on qualifying expenses during the covered period. Management believes that the Organization will be able to apply for forgiveness of the entire loan amount.



## **SUPPLEMENTARY INFORMATION**

# ALUM ROCK COUNSELING CENTER, INC.

## SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS

Year Ended June 30, 2019

| Program Name   | Program or<br>Award Amount | Receipts/<br>Revenue<br>Recognized | Disbursements/<br>Expenditures<br>Incurred |
|--|----------------------------|------------------------------------|--|
| <b>State and Local Government Assistance</b>                                       |                            |                                    |  |
| City of San Jose, BEST, Youth Truancy, Mentoring, and CIPY, #645135 & #646151      | \$ 207,044                 | \$ 189,337                         | \$ 189,337                                 |
| City of San Jose, PRNS, SSIG, Safe Summer Initiative, #646019                      | 10,000                     | 8,132                              | 8,132                                      |
| County of Santa Clara, Parent Advocate Services, #4300010384                       | 280,198                    | 268,373                            | 268,373                                    |
| County of Santa Clara, Substance Use Treatment Services, #4300016599 & #4300015614 | 345,500                    | 336,951                            | 336,951                                    |
| County of Santa Clara, Short Doyle F & C (SOS), #4300015322                        | 4,679,247                  | 1,705,997                          | 1,705,997                                  |
| County of Santa Clara--MHSA-CSS, F & C Expansion, #4300015317                      | 718,334                    | 436,246                            | 436,246                                    |
| County of Santa Clara--MHSA PEI Central, #4300015321                               | 1,090,449                  | 595,618                            | 595,618                                    |
| County of Santa Clara--MHSA PEI East, # 4300015321                                 | 2,765,832                  | 1,519,510                          | 1,519,510                                  |
| County of Santa Clara, SD First 5, #4300015319                                     | 2,175,064                  | 1,462,630                          | 1,462,630                                  |
| County of Santa Clara--MHSA PEI School Linked Services # 4300015320                | 718,679                    | 470,072                            | 470,072                                    |
| County of Santa Clara-CGF, F & C Expansion # 4300015322                            | 222,795                    | 124,062                            | 124,062                                    |
| County of Santa Clara--Foundation for Hispanic Education, # 4300015322             | 686,834                    | 480,435                            | 480,435                                    |
| Total state and local government assistance  | <u>\$ 13,899,976</u>       | <u>\$ 7,597,363</u>                | <u>\$ 7,597,363</u>                        |

See accompanying independent auditor's report and notes to financial statements.



INDEPENDENT AUDITOR'S 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  
Alum Rock Counseling Center, Inc.  
San Jose, California

We have audited 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, the financial statements of Alum Rock Counseling Center, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2019, 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 October 30, 2020.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the Organization's financial statements are free from 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*.



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### **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.

*Abbott, Stringham & Lynch*

October 30, 2020