



ALUM ROCK COUNSELING CENTER, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2021 AND 2020



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 statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in Note 2 to the financial statements, for the year ended June 30, 2021, Alum Rock Counseling Center, Inc. adopted new accounting guidance Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers* (ASC Topic 606). Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were 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 for the years ended June 30, 2021 and 2020 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 audits 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 3, 2022 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 3, 2022

ALUM ROCK COUNSELING CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

Assets

	June 30,	
	2021	2020
Current assets:		
Cash and cash equivalents	\$ 5,507,943	\$ 4,027,145
Accounts receivable	840,941	986,318
Pledges and contributions receivable	2,390	26,465
Prepaid expenses and deposits	115,316	77,538
Total current assets	6,466,590	5,117,466
Property and equipment, net	19,076	19,115
Deposits	22,597	22,597
Assets held for deferred compensation	15,000	-
	<u>\$ 6,523,263</u>	<u>\$ 5,159,178</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 76,921	\$ 64,420
Accrued liabilities	657,851	597,977
Accrued contingency reserve	2,601,346	2,450,157
Paycheck Protection Program loans payable	2,685,700	1,410,000
Total current liabilities	6,021,818	4,522,554
County of Santa Clara relief fund liability	1,693,439	-
Deferred compensation liability	15,000	-
Total liabilities	<u>7,730,257</u>	<u>4,522,554</u>
Net (deficit) assets:		
Without donor restrictions	(1,402,683)	489,806
With donor restrictions	195,689	146,818
Total net (deficit) assets	<u>(1,206,994)</u>	<u>636,624</u>
	<u>\$ 6,523,263</u>	<u>\$ 5,159,178</u>

ALUM ROCK COUNSELING CENTER, INC.

STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2021			Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Support:						
Contributions and grants	\$ 170,847	\$ 328,345	\$ 499,192	\$ 149,847	\$ 156,465	\$ 306,312
Special events, net of direct expenses of \$0 and \$6,505	-	-	-	51,180	-	51,180
United Way	103	-	103	902	-	902
Total support	170,950	328,345	499,295	201,929	156,465	358,394
Revenue:						
Program service fees	5,156,890	-	5,156,890	7,152,861	-	7,152,861
Interest income	3,944	-	3,944	16,793	-	16,793
Loss on disposal of property and equipment	-	-	-	(6,500)	-	(6,500)
Total revenue	5,160,834	-	5,160,834	7,163,154	-	7,163,154
Net assets released from restrictions	279,474	(279,474)	-	114,841	(114,841)	-
Total support and revenue	5,611,258	48,871	5,660,129	7,479,924	41,624	7,521,548
Functional expenses:						
Program services:						
Counseling	2,682,647	-	2,682,647	2,593,361	-	2,593,361
Prevention and education	2,856,870	-	2,856,870	2,302,809	-	2,302,809
Crisis	574,100	-	574,100	1,712,173	-	1,712,173
Total program services expenses	6,113,617	-	6,113,617	6,608,343	-	6,608,343
Supporting services:						
Management and general	1,229,319	-	1,229,319	1,208,313	-	1,208,313
Fundraising	160,811	-	160,811	158,906	-	158,906
Total functional expenses	7,503,747	-	7,503,747	7,975,562	-	7,975,562
Change in net (deficit) assets	(1,892,489)	48,871	(1,843,618)	(495,638)	41,624	(454,014)
Net assets, beginning of year	489,806	146,818	636,624	985,444	105,194	1,090,638
Net (deficit) assets, end of year	\$ (1,402,683)	\$ 195,689	\$ (1,206,994)	\$ 489,806	\$ 146,818	\$ 636,624

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

ALUM ROCK COUNSELING CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021

	Program Services				Supporting Services			
	Counseling	Prevention and Education	Crisis	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	\$ 1,947,042	\$ 2,066,238	\$ 387,092	\$ 4,400,372	\$ 800,881	\$ 98,770	\$ 899,651	\$ 5,300,023
Employee benefits	203,735	240,971	37,485	482,191	105,451	8,895	114,346	596,537
Payroll taxes	161,674	172,417	30,582	364,673	58,337	7,439	65,776	430,449
Total salary and related expenses	2,312,451	2,479,626	455,159	5,247,236	964,669	115,104	1,079,773	6,327,009
Professional services	159,915	134,193	45,264	339,372	148,822	19,759	168,581	507,953
Occupancy	122,984	92,560	23,584	239,128	53,595	5,902	59,497	298,625
Equipment rent and maintenance	26,317	54,478	5,104	85,899	8,078	345	8,423	94,322
Supplies	9,003	29,314	2,925	41,242	12,184	13,134	25,318	66,560
Office expenses	20,702	18,779	5,339	44,820	9,754	1,110	10,864	55,684
Financial assistance	-	11,505	29,612	41,117	-	-	-	41,117
Insurance	12,860	13,612	3,076	29,548	5,354	664	6,018	35,566
Dues and memberships	11,168	12,258	1,817	25,243	5,250	2,376	7,626	32,869
Staff recruitment and training	5,722	7,539	1,260	14,521	12,101	300	12,401	26,922
Depreciation	-	-	-	-	7,646	-	7,646	7,646
Travel	1,507	2,640	955	5,102	40	-	40	5,142
Miscellaneous	-	-	-	-	1,435	2,078	3,513	3,513
Meetings and conferences	18	366	5	389	391	39	430	819
Total expenses	2,682,647	2,856,870	574,100	6,113,617	1,229,319	160,811	1,390,130	7,503,747
Less direct costs from special events	-	-	-	-	-	-	-	-
Total expenses on Statement of Activities	<u>\$ 2,682,647</u>	<u>\$ 2,856,870</u>	<u>\$ 574,100</u>	<u>\$ 6,113,617</u>	<u>\$ 1,229,319</u>	<u>\$ 160,811</u>	<u>\$ 1,390,130</u>	<u>\$ 7,503,747</u>

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

ALUM ROCK COUNSELING CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020

	Program Services				Supporting Services			
	Counseling	Prevention and Education	Crisis	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	\$ 1,889,329	\$ 1,660,013	\$ 1,242,966	\$ 4,792,308	\$ 720,416	\$ 100,053	\$ 820,469	\$ 5,612,777
Employee benefits	197,895	213,686	130,310	541,891	97,279	9,006	106,285	648,176
Payroll taxes	164,155	139,416	106,760	410,331	39,723	7,290	47,013	457,344
Total salary and related expenses	2,251,379	2,013,115	1,480,036	5,744,530	857,418	116,349	973,767	6,718,297
Professional services	126,463	90,254	103,746	320,463	237,426	23,155	260,581	581,044
Occupancy	101,786	87,115	60,150	249,051	50,174	5,812	55,986	305,037
Supplies	16,421	34,119	7,461	58,001	14,206	7,113	21,319	79,320
Travel	21,976	31,987	9,593	63,556	1,209	211	1,420	64,976
Staff recruitment and training	22,800	4,978	12,943	40,721	22,221	-	22,221	62,942
Office expenses	14,936	11,802	11,821	38,559	3,729	517	4,246	42,805
Insurance	13,990	11,401	8,963	34,354	5,756	899	6,655	41,009
Dues and memberships	8,370	6,960	5,748	21,078	1,293	2,214	3,507	24,585
Miscellaneous	5,932	4,170	3,995	14,097	1,295	9,019	10,314	24,411
Equipment rent and maintenance	5,649	3,703	5,381	14,733	5,981	122	6,103	20,836
Meetings and conferences	3,659	3,205	2,336	9,200	3,782	-	3,782	12,982
Depreciation	-	-	-	-	3,823	-	3,823	3,823
Total expenses	2,593,361	2,302,809	1,712,173	6,608,343	1,208,313	165,411	1,373,724	7,982,067
Less direct costs from special events	-	-	-	-	-	(6,505)	(6,505)	(6,505)
Total expenses on Statement of Activities	<u>\$ 2,593,361</u>	<u>\$ 2,302,809</u>	<u>\$ 1,712,173</u>	<u>\$ 6,608,343</u>	<u>\$ 1,208,313</u>	<u>\$ 158,906</u>	<u>\$ 1,367,219</u>	<u>\$ 7,975,562</u>

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

ALUM ROCK COUNSELING CENTER, INC.

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Change in net (deficit) assets	\$ (1,843,618)	\$ (454,014)
Adjustments to reconcile change in net (deficit) assets to net cash (used in) provided by operating activities:		
Depreciation	7,646	3,823
Loss on disposal of property and equipment	-	6,500
Changes in operating assets and liabilities:		
Accounts receivable	145,377	870,124
Pledges and contributions receivable	24,075	44,765
Prepaid expenses and deposits	(37,778)	3,630
Accounts payable	12,501	(18,912)
Accrued liabilities	59,874	21,989
Accrued contingency reserve	151,189	(306,563)
Net cash (used in) provided by operating activities	(1,480,734)	171,342
Cash flows from investing activities:		
Purchases of property and equipment	(7,607)	(22,938)
Cash flows from financing activities:		
Proceeds from the County of Santa Clara relief fund	1,693,439	-
Proceeds from Paycheck Protection Program loans payable	1,275,700	1,410,000
Net cash provided by financing activities	2,969,139	1,410,000
Net increase in cash and cash equivalents	1,480,798	1,558,404
Cash and cash equivalents at beginning of year	4,027,145	2,468,741
Cash and cash equivalents at end of year	\$ 5,507,943	\$ 4,027,145

ALUM ROCK COUNSELING CENTER, INC.

Notes to Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020.

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 provisions 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, 2021 and 2020, the Organization has not recorded a provision for uncollectible pledges and contributions.

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 \$5,000 per item purchased. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as described below. 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, 2021 and 2020

Note 2 - Summary of significant accounting policies (continued)

Property, equipment and depreciation (continued)

A summary of the estimated useful lives is as follows:

	<u>Useful Life</u>
Leasehold improvements	Shorter of 15 years or remaining lease term
Vehicles	5 years
Office and computer equipment	3 to 10 years

Revenue recognition - contract with customers

On July 1, 2020, the Organization adopted ASC 606, Revenue from Contracts with Customers (ASC 606) and all the related amendments using the modified retrospective method, whereby the adoption did not impact any prior periods. The effect of adopting the new standard did not require any cumulative effect adjustment to net assets as of July 1, 2020.

The Organization reports program service fees at the amounts that reflect the consideration to which the Organization expects to be entitled in exchange for services provided. These amounts are due from third-party payers, with the majority of the program service fees coming from local governmental agencies in which the individuals receiving the services reside. The Organization receives cost reimbursement contract revenue as well as fixed rate contract revenue. The program service fee 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 considered contract assets/liabilities and accrued by the Organization as a receivable or contingency reserve for contracts for which cost reports have not been approved by the funder.

Contract assets and liabilities consist of the following:

	<u>July 1, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>
Accounts receivable	\$ 1,856,442	\$ 986,318	\$ 840,941
Accrued contingency reserve	\$ 2,756,720	\$ 2,450,157	\$ 2,601,346

The Organization determines performance obligations based on the nature of the services the Organization provides and recognizes revenues for performance obligations satisfied at a point in time based on the actual services provided. The Organization believes that this method provides a faithful depiction of the transfer of services based on the inputs needed to satisfy the obligations.

All program services are delivered to the residents of Santa Clara County. All of these revenue streams are short-term in nature and do not have any significant financing components as payments are generally received shortly after the services are provided.

ALUM ROCK COUNSELING CENTER, INC.

Notes to Financial Statements

June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies (continued)

Functional allocation of expenses

The costs of providing the various program services have been summarized on a functional basis in the accompanying statements 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 the year ended June 30, 2018.

New accounting pronouncements not yet adopted

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. The standard is to be applied retrospectively. The Organization is currently evaluating the impact of adopting this standard on its financial statements.

ALUM ROCK COUNSELING CENTER, INC.

Notes to Financial Statements

June 30, 2021 and 2020

Note 2 - Summary of significant accounting policies (continued)

Subsequent events

In preparing its financial statements, the Organization has evaluated subsequent events through October 3, 2022, which is the date the financial statements were available to be issued.

Note 3 - Liquidity and availability of resources

The following table reflects the Organization's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditure within one year from this date. Financial assets are considered to be unavailable when illiquid or not readily convertible to cash within one year.

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2021 and 2020 are as follows:

	June 30,	
	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 5,507,943	\$ 4,027,145
Accounts receivable	840,941	986,318
Pledges and contributions receivable	2,390	26,465
Total financial assets	6,351,274	5,039,928
Less:		
Country of Santa Clara relief fund liability	(1,693,439)	-
Accrued contingency reserve	(2,601,346)	(2,450,157)
Total financial assets and liquidity resources available within one year	<u>\$ 2,056,489</u>	<u>\$ 2,589,771</u>

The Organization maintains a line of credit (Note 6) with available borrowings of \$400,000 to cover any short-term working capital deficiencies.

ALUM ROCK COUNSELING CENTER, INC.

Notes to Financial Statements

June 30, 2021 and 2020

Note 4 - Property and equipment

Property and equipment consisted of the following:

	June 30,	
	2021	2020
Leasehold improvements	\$ 65,690	\$ 65,690
Vehicles	43,577	43,577
Office and computer equipment	30,005	30,005
	139,272	139,272
Less: accumulated depreciation and amortization	(127,803)	(120,157)
	11,469	19,115
Construction in process	7,607	-
	<u>\$ 19,076</u>	<u>\$ 19,115</u>

Note 5 - Accrued liabilities

Accrued liabilities consisted of the following:

	June 30,	
	2021	2020
Accrued paid time off	\$ 390,329	\$ 359,703
Accrued wages	236,984	234,162
Other	30,538	4,112
	<u>\$ 657,851</u>	<u>\$ 597,977</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 (5.25% at June 30, 2021 and 2020). There were no borrowings against the line at June 30, 2021 and 2020.

ALUM ROCK COUNSELING CENTER, INC.

Notes to Financial Statements

June 30, 2021 and 2020

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 adjustments 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, 2021 and 2020, and the accrued contingency reserve totaled \$2,601,346 and \$2,450,157 at June 30, 2021 and 2020, respectively.

Note 8 - Paycheck Protection Program and relief funding

On April 21, 2020, the Organization received loan proceeds in the amount of \$1,410,000 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), provided for loans to qualifying businesses for amounts of up to 2.5 times the average monthly payroll expenses of the qualifying business for the qualifying time period. The loan and accrued interest are forgivable after the applicable time period in the CARES Act as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels.

On February 19, 2021, the Organization received loan proceeds in the amount of \$1,275,700 under the second draw of the PPP. The loan and accrued interest are forgivable in accordance with the requirements in the CARES Act.

In October 2021 and May 2022, the Organization was informed that the April 2020 and February 2021 PPP loans and related interest were forgiven by the Small Business Administration, respectively, releasing the Organization from all repayment obligations related to the loans.

On May 22, 2020, the County of Santa Clara ("CSC") issued a notice to all of its Behavioral Health Services Department ("BHSD") contract service providers of a program that will allow the contract service provider the ability to request reimbursement for the shortfall between direct services billed and the total costs incurred by the contract service provider beginning with the March 2020 billing cycle. Providers must first apply available federal, state, or other alternative funding sources (including funds received under the PPP) to cover the gap between costs incurred for direct services provided and billed. Once alternative funding sources have been applied, funding received by the CSC will be forgiven in its entirety, up to the amount not covered by alternative funding sources, and any remaining funds received in advance will be re-payable to the CSC at the end of the program period.

Under this program, the Organization invoiced \$715,587 to the CSC in October 2020 for costs in excess of billings for the period from March 1 through June 30, 2020. In November 2020, the CSC paid the Organization \$692,486, which represented the total approved costs in excess of billings recognized by the CSC, and reimbursable under this program. The initial invoicing of \$715,587 did not factor in the funds received under the PPP. The funding from the PPP loan, beginning on April 21, 2020, adequately covered the costs of the BHSD contracts and qualified for forgiveness under the terms of the PPP. As a result, costs in excess of billings from March 1, 2020 through April 21, 2020, which amounted to \$202,881, were subject to reimbursement from the CSC, and were therefore recognized as program service fees revenue and were included in accounts receivable on the statements of financial position for the year ended June 30, 2020.

ALUM ROCK COUNSELING CENTER, INC.

Notes to Financial Statements

June 30, 2021 and 2020

Note 8 - Paycheck Protection Program and relief funding (continued)

During the fiscal year ended June 30, 2021, the Organization invoiced approximately an additional \$1,700,000 to the CSC for costs in excess of billings for the period from July 1, 2020 through December 31, 2020. As of June 30, 2021, the Organization received approximately \$1,000,000. Amounts invoiced do not factor in the funds received during the PPP.

Since the Organization has obtained full forgiveness of both of the PPP loan amounts from the SBA, it intends to return the additional funds to the CSC and has recorded the amount of \$1,693,439 as a noncurrent liability on the accompanying statements of financial position.

Note 9 - Net assets with donor restrictions

Net assets released from donor restrictions by incurring expenses satisfying donor restricted purposes or by the expirations of those are as follows:

	Year Ended June 30,	
	2021	2020
Time restrictions expired	\$ 17,855	\$ 8,000
Purpose restrictions fulfilled	261,619	106,841
	<u>\$ 279,474</u>	<u>\$ 114,841</u>

Net assets with donor restrictions consisted of the following:

	June 30,	
	2021	2020
Prevention, Education, and Wellness	\$ 82,404	\$ 42,461
Counseling	113,285	29,000
Crisis	-	59,892
Time restricted	-	15,465
	<u>\$ 195,689</u>	<u>\$ 146,818</u>

Note 10 - 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 under these leases for the years ended June 30, 2021 and 2020 was \$17,427 and \$20,836, respectively.

The Organization occupies its administrative and program facilities under three month-to-month agreements. Payments under these agreements are approximately \$23,700 per month. Total rent expense for these facilities for the years ended June 30, 2021 and 2020 was \$278,203 and \$283,419, respectively.

ALUM ROCK COUNSELING CENTER, INC.

Notes to Financial Statements

June 30, 2021 and 2020

Note 10 - Operating leases (continued)

Subsequent to June 30, 2021, the Organization entered into a new ten-year facility lease, commencing December 1, 2021. The lease calls for escalating rent payments and includes options to purchase or extend the lease for a five-year period.

The future minimum lease commitments for the equipment and facility leases outlined above are as follows:

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2022	\$ 106,825
2023	187,406
2024	190,903
2025	196,629
2026	202,530
Thereafter	<u>1,206,537</u>
	<u>\$ 2,090,830</u>

Note 11 - Retirement plan and deferred compensation

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 years ended June 30, 2021 and 2020, a total of \$79,713 and \$78,484, respectively, was charged to operations under this plan.

The Organization has also established a 457(b) deferred compensation plan for one of its current officers. During the year ended June 30, 2021, the officer elected to make salary deferrals totaling \$15,000 into the investment account established, and managed, by the Organization. No salary deferrals were made to the plan during the year ended June 30, 2020.

Note 12 - 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, 2021, 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 Organization's performance under county behavioral health contracts. At June 30, 2021 and 2020, receivables from one funding source amounted to approximately 87% of accounts receivable.

ALUM ROCK COUNSELING CENTER, INC.

Notes to Financial Statements

June 30, 2021 and 2020

Note 12 - Concentrations, contingencies, risks and uncertainties (continued)

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.

Contingencies

The Organization maybe subject to 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, if any, will not have a material adverse effect on the financial position, changes in net assets, and cash flows of the Organization.

Risks and uncertainties

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.

SUPPLEMENTARY INFORMATION

ALUM ROCK COUNSELING CENTER, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS

Year Ended June 30, 2021

Program Name	Program or Award Amount	Receipts/ Revenue Recognized	Disbursements/ Expenditures Incurred
State and Local Government Assistance			
City of San Jose, BEST, Youth Mentoring and Truancy Prevention Program, #646808	\$ 126,778	\$ 121,368	\$ 121,368
City of San Jose, PRNS, SSIG, Safe Summer Initiative, #646902	10,000	3,304	3,304
County of Santa Clara, Parent Advocate Services, #4300016911	280,198	240,373	240,373
County of Santa Clara, Substance Use Treatment Services, #4300018784-4300018783-4300018765	712,550	491,362	491,362
County of Santa Clara, Short Doyle Family & Children, PO #4300018772	2,078,036	467,423	467,423
County of Santa Clara, Short Doyle CSS-C03, F&C BHOS Redesign, PO #4300018773	1,049,893	1,049,893	1,049,893
County of Santa Clara, Short Doyle First 5, PO #4300018774	2,044,430	541,335	541,335
County of Santa Clara, Short Doyle CSS-C02, SLS PO # 4300018775	342,279	213,975	213,975
County of Santa Clara, Short Doyle CSS-C02 Strengthening Families- Central, PO #4300018776	747,737	364,239	364,239
County of Santa Clara, Short Doyle CSS-C02 Strengthening Families- East, PO #4300018776	1,860,364	1,320,979	1,320,979
County of Santa Clara, Short Doyle INN-13 Allcove, PO #4300018777	793,500	301,370	301,370
Other	41,269	41,269	41,269
Total state and local government assistance	<u>\$ 10,087,034</u>	<u>\$ 5,156,890</u>	<u>\$ 5,156,890</u>

ALUM ROCK COUNSELING CENTER, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS

Year Ended June 30, 2020

Program Name	Program or Award Amount	Receipts/ Revenue Recognized	Disbursements/ Expenditures Incurred
State and Local Government Assistance			
City of San Jose, BEST, Youth Truancy, Mentoring, and CIPY, #646151 & #646456	\$ 138,238	\$ 135,940	\$ 135,940
City of San Jose, PRNS, SSIG, Safe Summer Initiative, #646382	10,000	9,165	9,165
County of Santa Clara, Parent Advocate Services, #4300016911	350,248	325,430	325,430
County of Santa Clara, Substance Use Treatment Services, #4300007719 & #4300017324	462,800	434,749	434,749
County of Santa Clara, Short Doyle Family & Children, #4300016914	4,216,264	2,045,214	2,045,214
County of Santa Clara, Short Doyle CSS-CO3, F&C BHOS Redesign, #4300016915	535,750	568,028	568,028
County of Santa Clara, Short Doyle First 5, #4300016916	2,176,817	1,150,936	1,150,936
County of Santa Clara, Short Doyle CSS-CO2, SLS # 4300016917	479,193	310,838	310,838
County of Santa Clara, Short Doyle CSS-CO2 Strengthening F&C - Central, #4300016918	797,772	561,166	561,166
County of Santa Clara, Short Doyle CSS-CO2 Strengthening F&C - East, #4300016918	1,933,154	1,395,323	1,395,323
County of Santa Clara, Short Doyle INN-13 Allcove, #4300018154	529,000	13,191	13,191
County of Santa Clara, Short Doyle County Bridge Reimbursement	-	202,881	202,881
Total state and local government assistance	<u>\$ 11,629,236</u>	<u>\$ 7,152,861</u>	<u>\$ 7,152,861</u>



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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 3, 2022.

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*.

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 3, 2022