Alum Rock Counseling Center
www.alumrockcc.org

ALUM ROCK COUNSELING CENTER, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2023 AND 2022

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Alum Rock Counseling Center, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alum Rock Counseling Center, Inc. as of June 30, 2023 and 2022, and the changes in its net assets (deficit) and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Alum Rock Counseling Center, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, on July 1, 2022, Alum Rock Counseling Center, Inc. adopted new accounting guidance Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to his matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Alum Rock Counseling Center, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Alum Rock Counseling Center, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Alum Rock Counseling Center, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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, 2023 and 2022 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 March 27, 2024 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

March 27, 2024

ALUM ROCK COUNSELING CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

Assets

	June 30, 2023	June 30, 2022
Current assets:		
Cash and cash equivalents	$ 3,981,721	$ 5,228,503
Accounts receivable	1,555,393	688,537
Pledges and contributions receivable	5,950	60,300
Investments	511,109	-
Prepaid expenses and deposits	74,255	59,401
Total current assets	6,128,428	6,036,741
Property and equipment, net	121,564	11,430
Investments	986,975	-
Operating lease right-of-use asset	2,442,132	-
Deposits	19,806	35,503
Assets held for deferred compensation	27,250	21,250
	$ 9,726,155	$ 6,104,924

Liabilities and Net Assets (Deficit)

	2023	2022
Current liabilities:		
Accounts payable	$ 123,639	$ 28,282
Accrued liabilities	683,786	681,497
Accrued contingency reserve	2,581,432	2,523,674
County of Santa Clara relief fund liability	2,482,650	-
Operating lease liability	114,854	-
Total current liabilities	5,986,361	3,233,453
Operating lease liability, less current portion	2,390,177	-
Deferred rent	-	22,155
County of Santa Clara relief fund liability, less current portion	-	3,248,745
Deferred compensation liability	27,250	21,250
Total liabilities	8,403,788	6,525,603
Net assets (deficit):		
Without donor restrictions	1,123,468	(787,152)
With donor restrictions	198,899	366,473
Total net assets (deficit)	1,322,367	(420,679)
	$ 9,726,155	$ 6,104,924

ALUM ROCK COUNSELING CENTER, INC.

STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2023			Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Support:						
Contributions and grants	$ 56,917	$ 208,077	$ 264,994	$ 72,581	$ 409,479	$ 482,060
Contributions - in-kind	57,171	-	57,171	86,350	-	86,350
Forgiveness of Paycheck Protection Program loans	-	-	-	2,685,700	-	2,685,700
Special events, net of direct expenses of $21,773 and $12,998	49,845	-	49,845	47,926	-	47,926
Total support	163,933	208,077	372,010	2,892,557	409,479	3,302,036
Revenue:						
Program service fees	10,361,798	-	10,361,798	5,736,326	-	5,736,326
Interest income	117,071	-	117,071	2,415	-	2,415
Total revenue	10,478,869	-	10,478,869	5,738,741	-	5,738,741
Net assets released from restrictions	375,651	(375,651)	-	238,695	(238,695)	-
Total support and revenue	11,018,453	(167,574)	10,850,879	8,869,993	170,784	9,040,777
Functional expenses:						
Program services:						
Counseling	5,368,024	-	5,368,024	5,026,802	-	5,026,802
Community support	2,030,174	-	2,030,174	1,559,213	-	1,559,213
Total program services expenses	7,398,198	-	7,398,198	6,586,015	-	6,586,015
Supporting services:						
Management and general	1,515,359	-	1,515,359	1,372,436	-	1,372,436
Fundraising	194,276	-	194,276	296,011	-	296,011
Total functional expenses	9,107,833	-	9,107,833	8,254,462	-	8,254,462
Change in net assets	1,910,620	(167,574)	1,743,046	615,531	170,784	786,315
Net assets (deficit), beginning of year	(787,152)	366,473	(420,679)	(1,402,683)	195,689	(1,206,994)
Net assets (deficit), end of year	$ 1,123,468	$ 198,899	$ 1,322,367	$ (787,152)	$ 366,473	$ (420,679)

ALUM ROCK COUNSELING CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

	Program Services			Supporting Services			
	Counseling	Community Support	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	$ 3,964,167	$ 1,482,121	$ 5,446,288	$ 947,057	$ 116,389	$ 1,063,446	$ 6,509,734
Employee benefits	380,332	124,658	504,990	70,077	12,097	82,174	587,164
Payroll taxes	317,248	117,759	435,007	67,931	9,011	76,942	511,949
Total salary and related expenses	4,661,747	1,724,538	6,386,285	1,085,065	137,497	1,222,562	7,608,847
Professional services	273,609	83,841	357,450	177,152	26,607	203,759	561,209
Occupancy	238,582	76,038	314,620	40,351	5,538	45,889	360,509
Office renovation	-	-	-	152,626	-	152,626	152,626
Supplies	14,169	58,097	72,266	6,372	10,151	16,523	88,789
Office expenses	34,224	11,085	45,309	4,089	7,717	11,806	57,115
Insurance	28,806	9,075	37,881	6,631	670	7,301	45,182
Equipment rent and maintenance	24,767	22,058	46,825	9,593	926	10,519	57,344
Staff recruitment and training	20,618	19,610	40,228	3,726	-	3,726	43,954
Dues and memberships	18,127	3,848	21,975	7,394	2,829	10,223	32,198
Travel	22,670	17,542	40,212	1,104	593	1,697	41,909
Financial assistance	29,827	4,091	33,918	-	293	293	34,211
Depreciation	-	-	-	10,532	-	10,532	10,532
Conferences and meetings	388	133	521	8,435	228	8,663	9,184
Miscellaneous	-	-	-	-	22,791	22,791	22,791
Postage and shipping	490	218	708	2,289	209	2,498	3,206
Total expenses	5,368,024	2,030,174	7,398,198	1,515,359	216,049	1,731,408	9,129,606
Less direct costs from special events	-	-	-	-	(21,773)	(21,773)	(21,773)
Total expenses on Statement of Activities	$ 5,368,024	$ 2,030,174	$ 7,398,198	$ 1,515,359	$ 194,276	$ 1,709,635	$ 9,107,833

ALUM ROCK COUNSELING CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

	Program Services			Supporting Services			
	Counseling	Community Support	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	$ 3,668,672	$ 1,173,929	$ 4,842,601	$ 751,559	$ 104,870	$ 856,429	$ 5,699,030
Employee benefits	400,472	110,542	511,014	71,752	13,549	85,301	596,315
Payroll taxes	290,084	97,787	387,871	59,071	8,194	67,265	455,136
Total salary and related expenses	4,359,228	1,382,258	5,741,486	882,382	126,613	1,008,995	6,750,481
Professional services	271,242	49,991	321,233	171,417	62,513	233,930	555,163
Occupancy	286,699	18,773	305,472	47,058	7,084	54,142	359,614
Bad debt	-	-	-	161,006	-	161,006	161,006
Supplies	16,994	40,119	57,113	15,761	36,845	52,606	109,719
Staff recruitment and training	3,085	9,430	12,515	52,846	-	52,846	65,361
Equipment rent and maintenance	12,216	6,325	18,541	5,774	40,334	46,108	64,649
Office expenses	25,724	7,304	33,028	4,755	17,387	22,142	55,170
Travel	11,739	21,970	33,709	347	-	347	34,056
Insurance	21,467	7,068	28,535	4,212	651	4,863	33,398
Miscellaneous	-	575	575	14,668	14,621	29,289	29,864
Dues and memberships	17,094	5,610	22,704	3,928	2,552	6,480	29,184
Financial assistance	456	9,628	10,084	-	-	-	10,084
Depreciation	-	-	-	7,646	-	7,646	7,646
Postage and shipping	858	162	1,020	636	409	1,045	2,065
Total expenses	5,026,802	1,559,213	6,586,015	1,372,436	309,009	1,681,445	8,267,460
Less direct costs from special events	-	-	-	-	(12,998)	(12,998)	(12,998)
Total expenses on Statement of Activities	$ 5,026,802	$ 1,559,213	$ 6,586,015	$ 1,372,436	$ 296,011	$ 1,668,447	$ 8,254,462

ALUM ROCK COUNSELING CENTER, INC.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2023	2022
Cash flows from operating activities:		
Change in net assets	$ 1,743,046	$ 786,315
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	10,532	7,646
Non-cash operating lease expense	226,089	-
Forgiveness of Paycheck Protection Program loans payable	-	(2,685,700)
Forgiveness of County of Santa Clara Relief Fund liability	(1,756,191)	-
Changes in operating assets and liabilities:		
Accounts receivable	(866,856)	152,404
Pledges and contributions receivable	54,350	(57,910)
Prepaid expenses and deposits	843	43,009
Accounts payable	95,357	(48,639)
Accrued liabilities	2,289	23,646
Accrued contingency reserve	57,758	(77,672)
Operating lease liability	(185,345)	-
Deferred rent	-	22,155
Net cash used in operating activities	(618,128)	(1,834,746)
Cash flows from investing activities:		
Purchases of property and equipment	(120,666)	-
Purchases of investments	(1,498,084)	-
Net cash used in investing activities	(1,618,750)	-
Cash flows from financing activities:		
Proceeds from the County of Santa Clara relief fund	990,096	1,555,306
Net decrease in cash and cash equivalents	(1,246,782)	(279,440)
Cash and cash equivalents at beginning of year	5,228,503	5,507,943
Cash and cash equivalents at end of year	$ 3,981,721	$ 5,228,503
Non-cash investing and financing activities:		
Forgiveness of Paycheck Protection Program loans payable	$ -	$ 2,685,700
Forgiveness of County of Santa Clara Relief Fund liability	$ 1,756,191	$ -

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

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.

The Organization's values are: Integrity, Helping Others, Respect, Quality Work and Diversity. The Organization focuses on four Guiding Principles:

- Leading with Compassion and Empathy
- Demonstrating a Culture of Service and Care
- Nurturing Hopes and Strengths
- Rooted in Community

Through staff, collaboration with other agencies, government grants, and with the assistance of public and private donations, the Organization 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 or Community and Support:

Counseling (behavioral health)

- **First Five (ages 0-5)**: comprehensive in-home parent coaching and therapeutic services including: home visits, assessments, referrals, parenting education and coaching, individual and family therapy.

- **School Linked Services, Prevention and Early Intervention Services, and Social Emotional Academic Services**: target high-risk youth and their families to reduce and/or eliminate mental health issues inhibiting academic success and family wellness (primarily school-based).

- **Outpatient Mental Health Services** provides counseling services for youth aged 6-17 and their families, in the Alum Rock Counseling Center clinic and community.

- **Therapeutic Behavioral Services** provide behavioral support for children and youth, and parent support for high-risk children.

- **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.

Community Support

- **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.

- **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.

Note 1 - Nature of operations (continued)

Community Support (continued)

- **allcove**: peer support and supported education and employment services at a drop-in center for youth aged 12-25, in Palo Alto, in collaboration with Stanford University and Santa Clara County, who provide psychiatry, primary care, and behavioral health.

- **Downtown Youth Wellness Center**: peer support at a drop-in center in downtown San Jose, in collaboration with Santa Clara County, who provides psychiatry, primary care, and behavioral health.

- **Parent Advocates**: provides support for parents who have an active court-ordered or voluntary case open through the Department of Family and Children Services (DFCS).

- **Cultural Brokers**: partnership with the Department of Family and Children Services (DFCS) and the Juvenile Probation Department (JPD) to decrease disproportionality and increase well-being among at-risk children in those systems.

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.

Note 2 - Summary of significant accounting policies (continued)

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, risk-free rates and lease terms, and the allocation of functional expenses. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments, money market funds 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, 2023 and 2022.

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, 2023 and 2022, 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.

Note 2 - Summary of significant accounting policies (continued)

Investments

Investments in marketable securities with readily determinable fair value are reported at their fair value. Realized and unrealized gain and losses are reflected as an increase or decrease in net assets without donor restrictions unless their use has been restricted by the donor.

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.

A summary of the estimated useful lives is as follows:

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

In-kind support and services

Donated property and equipment and other tangible goods are recorded at their estimated fair market value as of the date of the donation. Contributed professional services are recognized if the services received a) create or enhance long-lived assets or b) require specialized skills, are provided by individual possessing those skills, and would typically need to be purchased if not provided by donation, and are recorded at the estimated fair market value at the time the services are rendered. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses, or in the case of long-term assets, over the period benefited. The Organization may also receive donated volunteer services that do not require specific expertise, but are nonetheless central to the Organization's operations. These contributed volunteer services are not reflected in the financial statements as they do not meet the requirement for recognition under GAAP.

Note 2 - Summary of significant accounting policies (continued)

Revenue recognition - contract with customers

The Organization recognizes program service fee revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers.* Program service fees are reported 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 supporting the communities 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 at a point in time 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:

	July 1, 2021	June 30, 2022	June 30, 2023
Accounts receivable	$ 840,941	$ 688,537	$ 1,555,393
Accrued contingency reserve	$ 2,601,346	$ 2,523,674	$ 2,581,432

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.

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.

Note 2 - Summary of significant accounting policies (continued)

Tax-exempt status (continued)

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, 2019.

Leases - recently adopted accounting guidance

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance, Accounting Standards Codification (ASC) Topic 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

The Organization elected the available practical expedients to account for the Organization's existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022, a lease liability of $2,610,883, which represents the present value of the remaining operating lease payments of $3,281,604, discounted using the weighted-average risk-free rate of 3.12%, and right-of-use asset of $2,588,728, which represents the operating lease liability of $2,610,883 adjusted for deferred rent of $22,155. The effect of adopting the new standard did not require any adjustment to net assets earnings as of July 1, 2022.

The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets and operating lease liabilities on the statement of financial position. Right-of-use assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Organization's lease does not provide an implicit rate, management uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease right-of-use asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Note 2 - Summary of significant accounting policies (continued)

Leases - recently adopted accounting guidance (continued)

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

New accounting pronouncements not yet adopted

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 statement of activities 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.

Subsequent events

In preparing its financial statements, the Organization has evaluated subsequent events through March 27, 2024, 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, 2023 and 2022, 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, 2023 and 2022 are as follows:

	June 30,	
	2023	2022
Financial assets:		
Cash and cash equivalents	$ 3,981,721	$ 5,228,503
Accounts receivable	1,555,393	688,537
Pledges and contributions receivable	5,950	60,300
Investments	1,498,084	-
Total financial assets	7,041,148	5,977,340
Less:		
Accounts payable and accrued expenses	(807,425)	(709,779)
County of Santa Clara relief fund liability	(2,482,650)	(1,492,554)
Accrued contingency reserve	(2,581,432)	(2,523,674)
Total financial assets and liquidity resources available within one year	$ 1,169,641	$ 1,251,333

Note 3 - Liquidity and availability of resources (continued)

The Organization maintains a line of credit (Note 7) with available borrowings of $400,000 to cover any short-term working capital deficiencies.

Note 4 - Property and equipment

Property and equipment consisted of the following:

	June 30, 2023	June 30, 2022
Leasehold improvements	$ 76,098	$ -
Vehicles	24,840	24,840
Office and computer equipment	75,113	22,938
	176,051	47,778
Less: accumulated depreciation and amortization	(54,487)	(43,955)
	121,564	3,823
Construction in process	-	7,607
	$ 121,564	$ 11,430

Note 5 - Investments and fair value measurements

The Organization’s investments are recorded at fair value and are invested in fixed income mutual funds and certificates of deposit.

The Organization adopted fair value accounting for all applicable assets and liabilities. This guidance clarifies that fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The fair value hierarchy requires the Organization to use observable inputs and minimize the use of unobservable inputs when measuring fair value. As a basis for considering such assumptions, the standards establish a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Other inputs that are directly or indirectly observable in the marketplace. Included in this category are certificates of deposit that are valued at amortized cost, which approximates fair value.

Level 3: Unobservable inputs which are supported by little or no market activity.

Note 5 - Investments and fair value measurements (continued)

The following are the major categories of assets measured at fair value on a recurring basis:

	Assets at Fair Value as of June 30, 2023			
	Level 1	Level 2	Level 3	Total
Fixed income mutual funds	$ 986,975	$ -	$ -	$ 986,975
Certificates of deposit	-	511,109	-	511,109
	$ 986,975	$ 511,109	$ -	$ 1,498,084

The carrying amounts of the Organization's other assets and liabilities on its statements of financial position approximates fair value because of their short maturities.

Note 6 - Accrued liabilities

Accrued liabilities consisted of the following:

	June 30,	
	2023	2022
Accrued paid time off	$ 407,592	$ 396,310
Accrued wages	265,333	269,021
Other	10,861	16,166
	$ 683,786	$ 681,497

Note 7 - 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 (10.25% and 6.75% at June 30, 2023 and 2022, respectively). There were no borrowings against the line at June 30, 2023 and 2022.

Note 8 - 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 years ended June 30, 2023 and 2022, and the accrued contingency reserve totaled $2,581,432 and $2,523,674 at June 30, 2023 and 2022, respectively.

Note 9 - 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 were forgivable after the applicable time period in the CARES Act as long as the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintained 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 were 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 from 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.

During the fiscal years ended June 30, 2021, 2022 and 2023, the Organization invoiced a total amount approximating $2,900,000 to the CSC for costs in excess of billings. As of June 30, 2023, the Organization received approximately $2,100,000. Amounts invoiced do not factor in the funds received during the PPP.

The Organization has been working with the County and has determined an amount of $1,756,191, funded as part of the relief efforts, was used by the Organization to cover costs of BHSD funded programs. This amount was recognized as additional program service fee revenue during the year ended June 30, 2023, with the remaining $2,482,650 to be repaid to the County. As of June 30, 2023, a final reconciliation had not been performed, but the final determination is expected to occur prior to June 30, 2024. As such, the CSC relief fund liability was recorded as a current liability at June 30, 2023 and as a non-current liability at June 30, 2022.

Note 10 - 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, 2023	Year Ended June 30, 2022
Purpose restrictions fulfilled	$ 375,651	$ 238,695

Net assets with donor restrictions consisted of the following:

	June 30, 2023	June 30, 2022
Prevention, education, and wellness	$ 163,338	$ 324,308
Counseling	35,561	42,165
	$ 198,899	$ 366,473

Note 11 - In-kind contributions

The following table summarizes the categories of contributed nonfinancial assets and other qualitative disclosures:

	Utilization in Programs/ Activities	Valuation Techniques and Inputs	Year Ended June 30, 2023	Year Ended June 30, 2022
Project management services	Program support	Valuation provided by donor and is based on rates for similar service in the market	$ 37,200	$ 64,400
Donated supplies and meeting space	Program support	Valuation provided by donor, approximates the value that would be received for selling similar products in the market	9,316	10,350
Graphic design services	Operational support	Valuation provided by donor and is based on rates for similar service in the market	8,880	9,000
Food donated for staff events	Operational support	Valuation provided by donor, approximates the value that would be received for selling similar products in the market	1,775	2,600
			$ 57,171	$ 86,350

Note 12 - Operating leases

The Organization is obligated under various operating leases for office equipment, which expire on various dates through January 2028. 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, 2023 and 2022 was $12,189 and $16,826, respectively. Management has determined these equipment leases are insignificant and are not reflected in the operating lease right-of-use asset and corresponding operating lease liability in accordance with ASC 842, Leases.

The Organization entered into a 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. Management believes the option to extend the life of the lease is likely to be exercised. In addition, the Organization occupied its administrative and program facilities under three month-to-month agreements, with monthly payments of approximately $15,000, which expired in January 2023. Total lease expense for these facilities for the years ended June 30, 2023 and 2022, including the Organization's non-lease occupancy expenses related to the facilities, was $357,283 and $343,905, respectively.

Other information related to the operating leases for the year ended June 30, 2023 is as follows:

Operating cash flows from operating leases	$ 185,345
ROU assets obtained in exchange for operating lease liabilities	$ 2,610,883
Weighted-average remaining lease term in years for operating leases	13.42
Weighted-average discount rate for operating leases	3.12%

The future minimum payments for operating leases are as follows:

For the Years Ending June 30,	Amount
2024	$ 190,903
2025	196,629
2026	202,530
2027	208,604
2028	214,860
Thereafter	2,082,733
Total future minimum lease payments	3,096,259
Less: present value discount	(591,228)
Total operating lease liability	2,505,031
Less: current portion of lease liability	(114,854)
	$ 2,390,177

Note 12 - Operating leases (continued)

For the year ended June 30, 2022, the Organization accounted for leases under the accounting guidance of FASB ASC Topic 840, requiring disclosures of the future minimum operating lease payments under the non-cancellable operating leases for real property as follows:

For the Years Ending June 30,	Amount
2023	$ 188,133
2024	190,903
2025	196,629
2026	202,530
2027	208,604
Thereafter	997,933
	$ 1,984,732

Note 13 - 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, 2023 and 2022, a total of $91,738 and $84,900, respectively, was contributed by the Organization to the plan.

The Organization has also established a 457(b) deferred compensation plan for one of its current officers. During the years ended June 30, 2023 and 2022, the officer elected to make salary deferrals totaling $6,000 and $6,250 into the investment account established, and managed, by the Organization, respectively.

Note 14 - Concentrations and contingencies

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, 2023, 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 CSC behavioral health contracts. At June 30, 2023 and 2022, receivables from one funding source amounted to approximately 74% and 82% of accounts receivable, respectively.

Note 14 - Concentrations and contingencies (continued)

Concentrations (continued)

The Organization receives substantially 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.

SUPPLEMENTARY INFORMATION

ALUM ROCK COUNSELING CENTER, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS

Year Ended June 30, 2023

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, # 646977	$ 141,430	$ 23,365	$ 23,365
City of San Jose, BEST, Youth Mentoring and Truancy Prevention Program, # 647291	158,225	134,561	134,561
City of San Jose, PRNS, SSIG, Safe Summer Initiative, # 647172	10,000	6,196	6,196
City of San Jose, PRNS, SSIG, Safe Summer Initiative, # 647480	10,000	4,923	4,923
County of Santa Clara, Parent Advocate Services, # 4300016911	540,883	492,613	492,613
County of Santa Clara, Cultural Broker, # 4300020321	295,719	274,336	274,336
County of Santa Clara, Payment Reform Incentive Grant, CalAim Incentive	30,000	30,000	30,000
County of Santa Clara, Short Doyle Family & Children, PO # 4300021468	728,409	299,224	299,224
County of Santa Clara, Short Doyle CSS-C03, F&C BHOS Redesign, PO # 4300021467	1,221,299	1,548,250	1,548,250
County of Santa Clara, Short Doyle First 5, PO # 4300021466	1,934,129	1,800,635	1,800,635
County of Santa Clara, Short Doyle CSS-C02, SLS PO # 4300021470	526,697	408,223	408,223
County of Santa Clara, Short Doyle CSS-C02 Strengthening Families- Central, PO # 4300021469	822,511	432,581	432,581
County of Santa Clara, Short Doyle CSS-C02 Strengthening Families- East, PO # 4300021469	1,896,210	1,868,161	1,868,161
County of Santa Clara, Short Doyle PCE Configuring E.H.R.	80,000	53,875	53,875
County of Santa Clara, Short Doyle INN-13 Allcove, PO # 4300021471	895,606	652,855	652,855
County of Santa Clara, Short Doyle INN-13 DYWC, PO # 4300021467	598,417	575,809	575,809
Total state and local government assistance	$ 9,889,535	$ 8,605,607	$ 8,605,607

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

ALUM ROCK COUNSELING CENTER, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS

Year Ended June 30, 2022

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	$ 19,695	$ 19,695	$ 19,695
City of San Jose, BEST, Youth Mentoring and Truancy Prevention Program, # 646977	123,152	123,152	123,152
City of San Jose, PRNS, SSIG, Safe Summer Initiative, # 647172	10,000	9,153	9,153
County of Santa Clara, Parent Advocate Services, # 4300016911	280,198	279,184	279,184
County of Santa Clara, Cultural Broker, # 4300020321	295,719	161,293	161,293
County of Santa Clara, Substance Use Treatment Services, # 4300020317-4300020318-4300020319	712,550	452,376	452,376
County of Santa Clara, Short Doyle Family & Children, PO # 4300020310	728,410	239,091	239,091
County of Santa Clara, Short Doyle CSS-C03, F&C BHOS Redesign, PO # 4300020311	1,221,299	982,561	982,561
County of Santa Clara, Short Doyle First 5, PO # 4300020312	1,934,129	927,329	927,329
County of Santa Clara, Short Doyle CSS-C02, SLS PO # 4300020314	526,697	298,735	298,735
County of Santa Clara, Short Doyle CSS-C02 Strengthening Families- Central, PO # 4300020315	822,511	313,128	313,128
County of Santa Clara, Short Doyle CSS-C02 Strengthening Families- East, PO # 4300020315	1,896,209	1,222,991	1,222,991
County of Santa Clara, Short Doyle INN-13 Allcove, PO # 4300020316	1,083,684	682,638	682,638
Grants from the County of Santa Clara	25,000	25,000	-
Total state and local government assistance	$ 9,679,253	$ 5,736,326	$ 5,711,326

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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 27, 2024.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

Report on 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

March 27, 2024