

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORT**

YEARS ENDED JUNE 30, 2020 AND 2019



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MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL FOR EACH MAJOR PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE	21
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	24
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	26
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	29



INDEPENDENT AUDITORS' REPORT

Board of Directors
Mental Health Systems, Inc. and Subsidiaries
San Diego, California

We have audited the accompanying consolidated financial statements of Mental Health Systems, Inc. and subsidiaries (collectively, the Organization or MHS), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2020 on our consideration of the Organization's internal control over financial reporting and on our tests of their 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 the testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Los Angeles, California
December 23, 2020

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS	2020	2019
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,872,905	\$ 734,380
Contracts and Grants Receivable, Net	18,843,816	16,273,874
Other Receivables	885,064	623,190
Prepaid Expenses	460,539	385,049
Deposits	1,086,553	924,870
Property and Equipment, Net	959,512	1,319,417
Total Assets	\$ 25,108,389	\$ 20,260,780
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 5,750,908	\$ 5,774,373
Accrued Liabilities	6,950,806	5,714,159
Deferred Revenue	377,472	239,850
Line of Credit	10,043,368	6,905,002
Notes Payable	2,639,594	1,003,676
Total Liabilities	25,762,148	19,637,060
NET ASSETS		
Without Donor Restrictions	(653,759)	623,720
Total Net Assets	(653,759)	623,720
Total Liabilities and Net Assets	\$ 25,108,389	\$ 20,260,780

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Mental Health Systems - Contract Revenue	\$ 90,049,407	\$ -	\$ 90,049,407
Mental Health Systems - Other Revenue	1,378,895	-	1,378,895
Mental Health Systems - Donations	32,870	-	32,870
Net Assets Released from Restrictions:			
Restriction Satisfied by Program			
Expenditures	-	-	-
Total Revenues and Other Support	<u>91,461,172</u>	<u>-</u>	<u>91,461,172</u>
EXPENSES			
Mental Health Systems - Program Services	80,376,099	-	80,376,099
Mental Health Systems - Management and General	<u>12,189,538</u>	<u>-</u>	<u>12,189,538</u>
Total Expenses	92,565,637	-	92,565,637
OTHER CHANGES			
Contract Settlements	<u>(173,014)</u>	<u>-</u>	<u>(173,014)</u>
CHANGE IN NET ASSETS	(1,277,479)	-	(1,277,479)
Net Assets - Beginning of Year	<u>623,720</u>	<u>-</u>	<u>623,720</u>
NET ASSETS - END OF YEAR	<u><u>\$ (653,759)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (653,759)</u></u>

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
REVENUES AND OTHER SUPPORT			
Mental Health Systems - Contract Revenue	\$ 72,026,528	\$ -	\$ 72,026,528
Mental Health Systems - Other Revenue	1,438,054	-	1,438,054
Mental Health Systems - Donations	53,524	26,785	80,309
Loss on Sale of Property and Equipment	(2,235,083)	-	(2,235,083)
Debt Forgiveness	250,000	-	250,000
Net Assets Released from Restrictions:			
Restriction Satisfied by Program			
Expenditures	88,150	(88,150)	-
Total Revenues and Other Support	<u>71,621,173</u>	<u>(61,365)</u>	<u>71,559,808</u>
EXPENSES			
Mental Health Systems - Program Services	63,082,981	-	63,082,981
Mental Health Systems - Management and General	10,722,448	-	10,722,448
Total Expenses	<u>73,805,429</u>	<u>-</u>	<u>73,805,429</u>
OTHER CHANGES			
Contract Settlements	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(2,184,256)	(61,365)	(2,245,621)
Net Assets - Beginning of Year	<u>2,807,976</u>	<u>61,365</u>	<u>2,869,341</u>
NET ASSETS - END OF YEAR	<u><u>\$ 623,720</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 623,720</u></u>

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	Mental Health Systems		
	Program Services	Management and General	Total
Salaries	\$ 40,513,059	\$ 4,741,210	\$ 45,254,269
Employee Benefits	4,804,309	552,838	5,357,147
Payroll Taxes	2,937,791	341,405	3,279,196
Total Salary Related Expenses	48,255,159	5,635,453	53,890,612
Program Expense	8,584,175	-	8,584,175
Occupancy	6,337,464	722,456	7,059,920
Consulting Fees	5,831,848	845,118	6,676,966
Purchased Services	3,195,711	-	3,195,711
Utilities and Telephone	2,117,389	110,063	2,227,452
Interest and Bank Charges	30,230	1,542,563	1,572,793
Insurance	768,323	518,479	1,286,802
Professional Fees and Outside Services	742,904	750,523	1,493,427
Equipment Purchase	851,773	161,438	1,013,211
Travel	782,099	177,226	959,325
Office Supplies	651,035	70,272	721,307
Equipment Rental	547,681	170,637	718,318
Taxes and Licenses	530,775	132,980	663,755
Miscellaneous and Unallowable Expense	-	447,547	447,547
Staff Development	355,451	110,586	466,037
Computer Expense	213,519	244,318	457,837
Laboratory Fees	265,810	-	265,810
Printing and Postage	127,705	36,032	163,737
Equipment and Maintenance	111,886	45,458	157,344
Dues and Subscriptions	49,634	37,211	86,845
Expenses before Depreciation and Amortization	80,350,571	11,758,360	92,108,931
Depreciation and Amortization	25,528	431,178	456,706
Total Expenses	\$ 80,376,099	\$ 12,189,538	\$ 92,565,637

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Mental Health Systems		
	Program Services	Management and General	Total
Salaries	\$ 30,716,457	\$ 4,011,707	\$ 34,728,164
Employee Benefits	2,784,425	130,756	2,915,181
Payroll Taxes	2,298,287	289,554	2,587,841
Total Salary Related Expenses	35,799,169	4,432,017	40,231,186
Consulting Fees	5,348,468	1,026,651	6,375,119
Program Expense	6,339,167	34,214	6,373,381
Occupancy	5,125,707	711,774	5,837,481
Purchased Services	2,685,235	-	2,685,235
Utilities and Telephone	2,102,935	183,635	2,286,570
Professional Fees and Outside Services	674,185	1,172,186	1,846,371
Travel	1,026,266	95,766	1,122,032
Equipment Purchase	740,884	130,941	871,825
Interest and Bank Charges	93,603	771,337	864,940
Insurance	619,368	213,450	832,818
Miscellaneous and Unallowable Expense	217,690	419,002	636,692
Office Supplies	547,918	36,584	584,502
Computer Expense	40,472	532,059	572,531
Taxes and Licenses	504,248	21,017	525,265
Equipment Rental	303,777	186,731	490,508
Staff Development	276,891	81,825	358,716
Equipment and Maintenance	208,247	105,220	313,467
Laboratory Fees	261,106	-	261,106
Printing and Postage	91,820	34,698	126,518
Dues and Subscriptions	4,071	9,878	13,949
Expenses before Depreciation and Amortization	63,011,227	10,198,985	73,210,212
Depreciation and Amortization	71,754	523,463	595,217
Total Expenses	<u>\$ 63,082,981</u>	<u>\$ 10,722,448</u>	<u>\$ 73,805,429</u>

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,277,479)	\$ (2,245,621)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	456,706	595,217
Gain (Loss) on Sale of Fixed Assets	-	2,235,083
(Increase) Decrease in Assets:		
Contracts and Grants Receivable, Net	(2,569,942)	(3,843,194)
Other Receivables	(261,874)	(623,190)
Prepaid Expenses	(75,490)	835,469
Deposits	(161,683)	(353,966)
Increase (Decrease) in Liabilities:		
Accounts Payable	(23,465)	592,244
Accrued Liabilities	1,236,647	(1,754,709)
Deferred Revenue	137,622	50,879
Net Cash Used by Operating Activities	(2,538,958)	(4,511,788)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Property and Equipment	-	4,800,001
Purchase of Property and Equipment	(96,801)	-
Net Cash Provided (Used) by Investing Activities	(96,801)	4,800,001
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on Line of Credit	91,245,996	74,424,173
Borrowings on Notes Payable	2,661,208	577,500
Payments Made on Line of Credit	(88,107,630)	(71,682,199)
Payments Made on Notes Payable	(1,025,290)	(4,226,426)
Net Cash Provided (Used) by Financing Activities	4,774,284	(906,952)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	2,138,525	(618,739)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	734,380	1,353,119
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	\$ 2,872,905	\$ 734,380
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year:		
Interest	\$ 843,641	\$ 519,293
Taxes	\$ -	\$ -

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 ORGANIZATION

Mission and History

Mental Health Systems, Inc. and subsidiaries (collectively, the "Organization" or "MHS") was organized June 2, 1978 pursuant to the General Nonprofit Corporation Law of the State of California. MHS has become one of the most well-established behavioral health service providers in the State of California with an extensive range of community-based interventions and treatment options. The Organization was founded to provide behavioral health services in an innovative and cost-effective manner primarily via government contracts.

MHS mission is to reduce disparities in behavioral health care delivery by creating a diverse workforce that is culturally competent; promotes wellness, recovery, and resiliency; and improves the lives of individuals, families and communities impacted by behavioral health challenges.

Our work has been structured around the guiding principles: people, culture, and growth. Ensuring that all MHS staff provides services with cultural respect for the diversity, values, belief systems and cultural preferences of our clients, families, and communities. As such, the guiding principles are continuously incorporated into everything we do. We are committed to eliminating disparities based on such factors as race, ethnicity, language, and socioeconomic status. Our purpose is to care for individuals, families, and communities with special attention to those who are most vulnerable. The following highlights our agency core values as developed by the employees across the organization and carried into our policies, procedures, and practices: integrity, diversity, mentorship, and inclusion. Further, our staff has committed themselves to executing excellence, setting examples in our corporate office and throughout each division, program, and service provision.

Nature of Activities

The Organization is committed to providing services that lead to rich, full lives for individuals and families. Those in need of behavioral health services will have equal access and be received by a broadly diverse staff, varied by culture and language. We will continuously remove barriers to competent care. MHS is an organization that has embraced the tenets of **client-centered care** from assessment throughout treatment. Services include prevention, intervention, counseling, case management, employment and vocational rehabilitation, residential treatment, and supportive housing for example.

MHS has focused on reducing disparities among the severely mentally ill, veterans, homeless, transitional age youth, and the justice involved to name a few. We have worked with special populations providing access to appropriate treatment, safe and stable housing, family reunification, employment services, and transportation in order to meet client needs and mitigate exposure to hospital and jail costs. MHS also facilitates prevention, outreach, referrals, and stigma reduction efforts. We are active in our communities and partner wherever possible to support the evaluation and creation of practices which are culturally and linguistically appropriate. We are committed to sharing information, literature and concerns or needs that come from partnership meetings and community forums. MHS has organized community-based forums and town hall meetings throughout the counties we serve for the purpose of garnering stakeholder input and implementing changes as indicated.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 ORGANIZATION (CONTINUED)

Our committees as well as our leadership team, regularly review demographic information to ensure gaps are being closed in our strategic plans, recruitment, training, and service provision.

Overall planning and implementation of services covers target areas such as:

- **Access to Care** – engage disenfranchised individuals
- **Evidence-Based Practices** – integrate and measure success in our behavioral health services
- **Workforce Development** – expand diversity and cultural competency to enhance outreach to diverse underserved populations
- **Evaluation and Outcomes** – evaluate outcomes and improve our systems
- **Quality of Care** – identify and evaluate how well we are meeting client needs

MHS has worked to develop a system that supports and promotes access to respectful and responsive service delivery through our diverse recruitment, selection, retention, and promotion practices. Cultural sensitivity, diversity, and competency are part of the mainstay philosophies of MHS. From hiring practices to our service delivery systems, MHS proactively seeks to embody a culture of equality and inclusion. Our culturally diverse staff members are recruited from a broad spectrum of communities, and we take pride in embracing an assertive Affirmative Action Program at every level. MHS recognizes the diverse backgrounds of our staff and what is most important to them in their respective career paths. We incorporate values and systems that match the staff's employment goals and provide motivation and opportunities for growth and advancement wherever possible. MHS invests in succession planning to retain qualified staff and provide our clients with continuity and the utmost professional care.

Our Compliance Department regulates a fully operationalized process for collecting measurable client outcomes for our services. We developed surveys to evaluate client outcomes and satisfaction which are administered twice annually. Our ongoing objective is to continue to support data collection and implementation while analyzing the data. MHS maintains a training platform on relies allowing us to continually evaluate, modify and provide access to meaningful and relevant trainings that meet the needs of our employees and the clients we serve. In addition, MHS has organized large community educational conferences related to cultural competency and specialized intervention and treatment.

MHS has incorporated various mechanisms to measure and monitor the effect of identified strategies to reduce disparities; outcome statements; measures of success; and tools to measure success. Collection of data and analysis of all strategies are reported accordingly. Measurements of success and areas of growth continue to drive our efforts in meeting strategic agency goals and objectives.

MHS is supported primarily through government contracts, donor contributions, and grants. Approximately 99.00% and 98.50% of the Organization's support for the years ended June 30, 2020 and 2019, respectively, came from government contracts.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of MHS have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These standards require that the Organization report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as Net Assets Released from Restrictions.

Principles of Consolidation

The consolidated financial statements include the accounts of Mental Health Systems, Inc. and its wholly owned subsidiaries, Novata Behavioral Health, Inc. and Sportfisher Properties, Inc. All material inter-entity transactions have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Certain contracts require cash to be held in separate bank accounts, which are used for contract purposes and included in the Cash and Cash Equivalent balances. For the purposes of the financial statements, the Organization considers all debt instruments purchased with a maturity date of less than 9 months to be cash equivalents.

Concentration of Credit Risk

The Organization maintains its cash and cash equivalents at several banks which may, at times, exceed federally insured limits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents at June 30, 2020 and 2019.

Approximately 57% of the Organization's revenues are provided by the County of San Diego.

Contracts and Grants Receivable

Contracts receivable consists of balances due for services provided pursuant to written contracts with various public and private agencies. Mental Health Systems, Inc. closely monitors outstanding accounts receivable and charges off to expense any balances that are determined to be uncollectible. At June 30, 2020, Mental Health Systems, Inc. considered all remaining accounts receivable to be fully collectible. Accordingly, there was no allowance for doubtful accounts.

Contributions

In accordance with accounting principles generally accepted in the United States of America, contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor limitations on the use of the support. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

MHS recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. A portion of MHS revenue is derived from cost reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when MHS has incurred expenditures in compliance with specific contract or grant provisions. MHS received cost reimbursable grants of \$4,370,447 that have not been recognized at June 30, 2020 because qualifying expenditures have not yet been incurred, with no advance payments received or recognized in the statement of financial position as deferred revenue.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and Materials

Consistent with accounting principles generally accepted in the United States of America, the Organization recognizes as support only those donated services which create or enhance nonfinancial assets or which require specialized skills which the Organization would otherwise have paid for. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and various assignments. The Organization receives more than 5,000 volunteer hours per year.

Property and Equipment

Property and equipment are recorded at historical cost and are being depreciated using the straight-line method over the estimated useful life of the assets. The cost of maintenance and repairs is charged to operations as incurred; the Organization capitalizes all expenditures for property and equipment more than \$5,000.

Advertising

Advertising costs are charged to operations when incurred and are included in Management and General functional expenses.

Deferred Revenue

Deferred revenue represents funds received, but not earned as qualifying expenses have not been incurred. These funds must be expensed in accordance with the provisions of the contract to which they apply, or if not expensed in the current period, are carried over into the subsequent year.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the program and the supporting services have been summarized on a functional basis in the consolidated statement of activities, and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated between the program and the supporting services in reasonable ratios determined by management.

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based upon time and effort. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

The Organization adopted Financial Accounting Standards Board's Accounting Standard (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

Subsequent Events

Management has evaluated subsequent events through December 23, 2020, the date the financial statements were available to be issued.

Risks and Uncertainties

The World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic in March 2020. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID19 may impact various parts of its 2021 operations and financial results, including grants. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2020	2019
Cash and Cash Equivalents	\$ 2,872,905	\$ 734,380
Contracts and Grants Receivable	18,843,816	16,273,874
Total	<u>\$ 21,716,721</u>	<u>\$ 17,008,254</u>

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in short-term savings accounts.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 CONTRACTS AND GRANTS RECEIVABLE

Contracts, grants, and other receivables are balances due to the Organization for services provided and expenses incurred prior to June 30, 2020 and 2019, pursuant to written contracts with various public agencies. All receivables are pledged as collateral on the line of credit. Contract receivable and grants receivable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Contracts Receivable	\$ 18,843,816	\$ 16,521,396
Less: Allowance for Doubtful Accounts	-	(247,522)
Total Due in One Year or Less	<u>\$ 18,843,816</u>	<u>\$ 16,273,874</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 555,260	\$ 555,260
Building and Facilities	1,003,445	914,634
Vehicles	722,015	722,015
Furniture, Fixtures, and Equipment	484,273	476,283
Leasehold Improvements	530,953	530,953
Software	2,463,832	2,463,832
Total Property and Equipment	<u>5,759,778</u>	<u>5,662,977</u>
Less: Accumulated Depreciation	<u>(4,800,266)</u>	<u>(4,343,560)</u>
Property and Equipment, Net	<u>\$ 959,512</u>	<u>\$ 1,319,417</u>

Depreciation expense for the fiscal years ended June 30, 2020 and 2019 was \$456,706 and \$595,217, respectively.

NOTE 6 ACCRUED LIABILITIES

	<u>2020</u>	<u>2019</u>
Accrued Payroll	\$ 2,730,016	\$ 1,815,953
Accrued Benefits	3,565,893	2,720,997
Other Liabilities	654,897	1,177,209
Total Accrued Liabilities	<u>\$ 6,950,806</u>	<u>\$ 5,714,159</u>

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 7 SETTLEMENT

The Organization was involved in arbitration with regard to disputed legal services and received an adverse judgment. In June 2019, The Organization entered into a payment plan with the legal firm, for the settlement payment totaling \$610,251. As part of the agreement, proceeds to MHS from a separate settlement are to be remitted to the firm upon receipt. The remaining balance is to be paid in equal monthly installments, totaling \$27,609, from October 2019 through December 2020. The balance as of June 30, 2020 was \$165,022 and is included in accrued liabilities on the accompanying statements of financial position.

NOTE 8 LINE OF CREDIT

In December 2018, the Organization obtained a \$10,000,000 revolving line of credit (LOC) secured by the Organization's accounts receivable. The line of credit has, subsequently, been increased to \$17,500,000 in October 2020. The LOC has a variable interest rate of prime rate plus 1% and matures in January, 2024. The LOC contains certain financial covenants and ratio requirements and as of June 30, 2020, the Organization was compliant with financial covenants and ratio requirements. As of June 30, 2020, the line of credit balance was \$10,043,368 and had an interest rate of 5.25%.

NOTE 9 NOTES PAYABLE

Notes payable consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Clementine	\$ 558,986	\$ 573,070
CNH Term Loan	1,989,600	302,500
Vermont	91,008	128,106
Hacienda	-	-
Total Notes Payable	<u>\$ 2,639,594</u>	<u>\$ 1,003,676</u>
Due in One Year	\$ 2,042,594	\$ 353,683
Due in Two to Five Years	138,101	172,377
Thereafter	458,899	477,616
Total	<u>\$ 2,639,594</u>	<u>\$ 1,003,676</u>

The Organization has a note payable with the City of Oceanside secured by a Deed of Trust for Clementine, an Oceanside property. The note requires monthly payments totaling \$3,417, including interest at 4.75%, through June 2042. The principal balance at June 30, 2020 and 2019 was \$558,986 and \$573,070, respectively.

The Organization also has a note payable with California Health Facilities Financing Authority secured by a Deed of Trust for Vermont, an Escondido property. The note requires monthly payments totaling \$3,369, including interest at 3.00%, through October 2022. The principal balance at June 30, 2020 and 2019 was \$91,008 and \$128,106, respectively.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 9 NOTES PAYABLE (CONTINUED)

In April 2019, the Organization entered into a note payable with CNH Finance Fund for \$550,000. The note requires weekly principal payments of \$27,500 and monthly variable interest payments through September 2019. As of June 30, 2019, the note had an interest rate of 7.25% and a balance of \$302,500. The note was subsequently paid off in September, 2019.

In February 2020, the Organization entered into a note payable with CNH Finance Fund for \$2,500,000. The note requires weekly principal payment of \$25,000 until note is paid in full. As of June, 2020, the note had an interest rate of 7.0% and a balance of \$1,989,600.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Commitments

The Organization entered into long-term operating lease agreements for program facilities, equipment, and the corporate office facility. These leases expire throughout the years ending June 2029. Aggregate future minimum operating lease commitments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 6,303,343
2022	4,742,128
2023	3,743,204
2024	3,049,111
2025	2,546,364
Thereafter	<u>2,102,524</u>
Total	<u>\$ 22,486,674</u>

During the years ended June 30, 2020 and 2019, the Organization incurred expenses of \$6,751,142 and \$5,112,560, respectively, associated with facility leases and equipment leases (inclusive of month-to-month lease agreements). When facility maintenance and nonrecurring repairs are included, the Organization incurred total occupancy expenses of \$7,059,920 and \$5,837,480, respectively.

Contingencies

Litigation

The Organization is, from time to time, named as a defendant in various lawsuits or actions incidental to its business. The lawsuits brought against the Organization that are in the normal course of business are covered by insurance. The Organization also establishes reserves for the insurance deductible for claims related to lawsuits and other contingencies when the Organization believes a loss is probable and is able to estimate its potential exposure. For loss contingencies believed to be reasonably possible, the Organization also discloses the nature of the loss contingency and an estimate of possible loss, range of loss, or a statement that such an estimate cannot be made. While actual losses may differ from the amounts recorded and the ultimate outcome of the Organization's pending actions is generally not yet determinable, the Organization does not believe that the ultimate resolution of currently pending legal proceedings, either individually or in the aggregate, will have a material adverse effect on its financial condition, results of operations, or cash flows.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contract Settlements

The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with the governmental funding agency's respective guidelines and regulations. The potential exists for disallowance of previously funded program costs or approval of income due to funding shifts. The Organization records known prior year settlements (disallowances, additional funding, or contract adjustments) as "contract settlements" in its general ledger. The amounts for the years ended June 30, 2020 and 2019 of \$173,014 and \$0, respectively, shown on the Statement of Activities represents known adjustments for prior year settlements. Liabilities, if any, which may result from any other governmental audits cannot be reasonably estimated and, accordingly, the Organization has no provisions for the possible disallowance of any other program costs on its financial statements.

NOTE 11 MATERIAL CONTRACTS

Mental Health Systems, Inc. is the recipient of funds under numerous contracts, several of which could be considered material to the overall operations of the Organization when considered separate from other contracts. This is not considered to be a material exposure as the expense related to such revenue can be terminated simultaneously with the cession of revenue.

NOTE 12 RETIREMENT PLAN

The Organization maintains a 401 (a) and Section 501 (a) plan for the benefit of all eligible employees. The plan provides discretionary contributions by the corporation up to the maximum amount permitted under the Internal Revenue Code, such amount to be determined annually by the Board of Directors. For the years ended June 30, 2020 and 2019, total expense was \$1,246,619 and \$824,741, respectively.

The Organization also maintains a 403(b) plan for the benefit of all eligible employees. The plan allows eligible employees to defer a portion of salary to the plan. The Organization does not offer a match.

NOTE 13 FINANCIAL POSITION

Mental Health Systems, Inc. had a loss of \$1,277,479 for the year ended June 30, 2020. As of June 30, 2020, the Organization's accumulated net asset deficit was \$653,759.

Management believes the Organization's present cash flows will enable it to meet its obligations for twelve months from the date these financial statements are available to be issued. It is probable that management will obtain additional sources of funding, including fundraising dollars that will enable the Organization to improve its financial condition.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Mental Health Systems, Inc. and Subsidiaries
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Mental Health Systems, Inc. and subsidiaries (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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 determination of the consolidated financial statement amounts. 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 organization’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 organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Los Angeles, California
December 23, 2020



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL FOR EACH MAJOR PROGRAM,
REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Mental Health Systems, Inc. and Subsidiaries
San Diego, California

Report on Compliance for Each Major Federal Program

We have audited the compliance of Mental Health Systems, Inc. and subsidiaries (collectively, the Organization), with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the fiscal year ended June 30, 2020. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the consolidated financial statements of the Organization as of and for the year ended June 30, 2020, and have issued our report thereon dated December 23, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Los Angeles, California
December 23, 2020

**MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes x no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
93.778	Medical Assistance Program
93.959	Block Grants for Preventing and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ x yes _____ no

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior Audit Findings and Questioned Costs

None

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Award or Contract Number	Federal Expenditures
Administrative Office of the U.S Courts				
Office of Probation and Pretrial Services:				
FPP Barstow, Victorville, Yucca Valley MH	99.XXX	Federal Probation Program	0973-19-014	\$ 64,494
CHULA VISTA FPP- MENTAL HEALTH	99.XXX	Federal Probation Program	0974-2019-MH02	126,357
Pre-Trial FPP (MH) - Southbay	99.XXX	Federal Probation Program	0974-18-006	115,370
SA SD Metro FPP SA03 (North County)	99.XXX	Federal Probation Program	0974-2019-SA03	147,967
				<u>454,188</u>
Department of Education Office of Special Education and Rehabilitative Services:				
Employment Services	84.126A	State of California	30758	<u>659,474</u>
Department of Health and Human Services:				
North Coastal Mental Health Clinic	93.778	County of San Diego	547336	1,742,936
North Inland Mental Health Clinic	93.778	County of San Diego	547337	1,362,157
VISTA BPSR	93.778	County of San Diego	547336	666,678
VISTA TAY	93.778	County of San Diego	547336	243,713
KINESIS Mental Health Clinic	93.778	County of San Diego	547337	814,967
STEPS ADOLESCENT	93.778	County of San Diego	549236	523,996
ACTION Central	93.778	County of San Diego	554865	207,001
ACTION East	93.778	County of San Diego	555095	1,169,357
City Star ACT	93.778	County of San Diego	556358	799,041
North Coastal ACT	93.778	County of San Diego	556419	559,836
One Stop TAY Center	93.778	County of San Bernardino	15-530	776,007
San Bernardino ACT	93.778	County of San Bernardino	18-389	508,511
Fresno IMPACT	93.778	County of Fresno	14-276	468,649
Fresno IMPACT	93.778	County of Fresno	20-014	518,232
Family and Adult Alternatives	93.778	County of Fresno	18-690	155,874
Family and Youth Alternatives	93.778	County of Fresno	18-690	47,920
NORTH STAR ACT	93.778	County of San Diego	556420	920,958
FAMILIES FORWARD	93.778	County of San Diego	551162	2,275,423
MHS SCHOOL BASED EPSDT	93.778	County of San Diego	518748	368,932
CENTER STAR ACT	93.778	County of San Diego	547183	1,365,980
TBS SAN BERNARDINO	93.778	County of San Bernardino	16-413	617,784
SUCCESS FIRST - EARLY WRAP PROGRAM	93.778	County of San Bernardino	16-404	754,155
P.R.I.D.E	93.778	County of San Bernardino	17-337	24,784
CENTRAL VALLEY RRC	93.778	County of San Bernardino	17-337	21,514
NEEDLES OUTPATIENT SERVICES	93.778	County of San Bernardino	17-337	13,229
BIG BEAR OUTPATIENT	93.778	County of San Bernardino	17-337	16,411
YUCCA VALLEY OUTPATIENT	93.778	County of San Bernardino	17-337	27,718
BIG BEAR DRUG COURT	93.778	County of San Bernardino	14-591	9,550
JOSHUA TREE DRUG COURT	93.778	County of San Bernardino	14-591	33,835
SAN BERNARDINO CFC	93.778	County of San Bernardino	14-591	55,734
FONTANA CFC	93.778	County of San Bernardino	14-591	22,557
VICTORVALLEY CFC	93.778	County of San Bernardino	14-591	34,963
Kern Homeless Outreach	93.778	County of Kern	739-2019	1,680
Santa Clara ACT	93.778	County of Santa Clara	TBD	409,242
Serial Inebriate Program	93.778	County of San Diego	554929	915,996
Family Recovery Center	93.778	County of San Diego	553434	2,839,072
Teen Recovery Center	93.778	County of San Diego	551085	1,103,245
				<u>22,397,639</u>

See accompanying Notes to Schedule of Federal Awards.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Award or Contract Number	Federal Expenditures
Department of Health and Human Services (Continued):				
CAT+	93.297	San Diego Youth Services	N/A	<u>183,640</u>
North Coastal Mental Health Clinic	93.150	County of San Diego	547336	48,047
North Inland Mental Health Clinic	93.150	County of San Diego	547337	<u>42,884</u>
				<u>90,931</u>
Kern ACT-ION	93.275	County of Kern	762-2019	479,476
Kern ACT-ION	93.275	County of Kern	645-2019	<u>441,318</u>
				<u>920,794</u>
SAMHSA Fresno Juvenile Justice Center	93.958	County of Fresno	18-622	<u>215,141</u>
NEEDLES PRIMARY PREVENTION	93.959	County of San Bernardino	15-400	167,000
NEEDLES RECOVERY CENTER	93.959	County of San Bernardino	15-320	132,016
YUCCA VALLEY RECOVERY CENTER	93.959	County of San Bernardino	15-320	115,401
Fresno Perinatal Residential (Fresno First)	93.959	County of Fresno	18-692	1,670,968
SAN BERNARDINO PRIMARY PREVENTION	93.959	County of San Bernardino	15-400	413,544
TEEN RECOVERY CENTER	93.959	County of San Diego	551085	102,291
North Inland Community Primary Prevention	93.959	County of San Diego	551559	373,000
FAMILY REC CTR RESIDENTIAL	93.959	County of San Diego	553434	889,245
SERIAL INEBRIATE PROGRAM	93.959	County of San Diego	554929	298,255
EAST COUNTY DRUG COURT	93.959	County of San Diego	554863	157,514
SOUTH COUNTY DRUG COURT	93.959	County of San Diego	554862	219,635
ACTION Central	93.959	County of San Diego	554865	183,598
ACTION East	93.959	County of San Diego	555095	371,647
CENTRAL VALLEY RECOVERY CENTER	93.959	County of San Bernardino	15-320	151,719
P.R.I.D.E	93.959	County of San Bernardino	17-337	57,437
CENTRAL VALLEY RRC	93.959	County of San Bernardino	17-337	49,858
NEEDLES OUTPATIENT SERVICES	93.959	County of San Bernardino	17-337	30,657
BIG BEAR OUTPATIENT	93.959	County of San Bernardino	17-337	38,032
YUCCA VALLEY OUTPATIENT	93.959	County of San Bernardino	17-337	<u>64,236</u>
				<u>5,486,054</u>
				<u>29,294,199</u>
Department of Justice:				
Byrne JAG Alternatives to Detention	16.738	South Bay Community Services	548979	149,955
Alternatives to Detention Title III	16.738	South Bay Community Services	N/A	<u>10,640</u>
				<u>160,595</u>

See accompanying Notes to Schedule of Federal Awards.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/Program Title	CFDA Number	Pass-Through Grantor	Grant Award or Contract Number	Federal Expenditures
Department of Housing and Urban Development:				
Hacienda Housing	14.267	Federal-HUD	CA1567L9T141802	66,171
Hacienda Housing	14.267	Federal-HUD	CA1567L9T141701	25,705
NORTH COUNTY SAFE HAVEN	14.267	Federal-HUD	CA0708L9D011811	146,686
NORTH COUNTY SAFE HAVEN	14.267	Federal-HUD	CA0708L9D011912	54,057
CONTINUUM OF CARE I	14.267	Federal-HUD	CA0693L9D011811	322,191
SHELTER PLUS CARE II	14.267	Federal-HUD	CA0689L9D011805	91,242
SHELTER PLUS CARE II	14.267	Federal-HUD	CA0689L9D011906	13,342
SHELTER PLUS CARE IV	14.267	San Diego Housing Commission	HHI-20-06B	397,944
SHELTER PLUS CARE III	14.267	Federal-HUD	CA0689L9D011805	88,829
SHELTER PLUS CARE III	14.267	Federal-HUD	CA0689L9D011906	7,191
SHELTER PLUS CARE IIIa	14.267	Federal-HUD	CA0689L9D011805	13,297
SHELTER PLUS CARE IIIa	14.267	Federal-HUD	CA0689L9D011906	35,693
MHS NEXT STEP	14.267	Federal-HUD	CA1698L9D011700	12,170
MHS NEXT STEP	14.267	Federal-HUD	CA1698L9D011801	53,609
				<u>1,328,127</u>
SPONSOR BASED VOUCHERS VIP	14.881	San Diego Housing	N/A - HAP	116,563
Sponsor Based Vouchers II	14.881	San Diego Housing	N/A - HAP	333,886
ACTION Central SBS MH	14.881	San Diego Housing	N/A - HAP	312,696
ACTION Central SBS	14.881	San Diego Housing	N/A - HAP	493,200
Center Star [50] SBS Housing	14.881	San Diego Housing	N/A - HAP	112,730
City Star ACT SBS Vouchers	14.881	San Diego Housing	N/A - HAP	448,304
				<u>1,817,379</u>
				<u>3,145,506</u>
Department of Labor:				
WIOA Steps to Success	17.259	County of San Bernardino	18-338	<u>73,125</u>
Department of the Treasury:				
Serial Inebriate Program	21.019	County of San Diego	554929	11,753
ACTION Central Convention Center	21.019	County of San Diego	554865	7,072
ACTION East	21.019	County of San Diego	555095	31,655
City Star ACT	21.019	County of San Diego	556358	65,486
Center Star ACT Convention Center	21.019	County of San Diego	547183	138,795
ACTION Central	21.019	County of San Diego	554865	206
Center Star ACT	21.019	County of San Diego	547183	5,164
School Based	21.019	County of San Diego	518748	8,819
North Coastal Mental Health Clinic	21.019	County of San Diego	547336	436
Vista BPSR	21.019	County of San Diego	547336	87
North Inland Mental Health Clinic	21.019	County of San Diego	547337	349
Kinesis MHC	21.019	County of San Diego	547337	765
Families Forward	21.019	County of San Diego	551162	151
				<u>270,738</u>
Total Expenditures of Federal Awards				<u>\$ 34,057,824</u>

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

NOTE 1 BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes contract activity of the Organization and is presented on the accrual basis of accounting, which is the same basis of accounting used in the preparation of the financial statements.

The information in this schedule is presented in accordance with the requirements of the Uniform Guidance and agrees with the amounts in the financial statements.

NOTE 2 INDIRECT COST RATE

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance, as the Organization has a negotiated rate for indirect costs.

