

February 27, 2024

RE: Mental Health Systems, Inc. dba Turn Behavioral Health Services Fiscal Year 22/23 Final Statements

To Whom It May Concern

We are pleased to present Mental Health Systems, Inc.'s dba TURN Behavioral Health Services audited financial statements for the Fiscal Year ending June 30, 2023. Our audit was performed in accordance with Uniform Guidance (also referred to as a "single audit"). TURN BHS is considered a low-risk auditee as no findings or deficiencies have been reported in the previous two single audit periods. We are pleased to say that the auditor's opinion for FY22/23 is an unmodified opinion. This is the highest opinion an auditor can state.

Our audit was performed by Clifton Larson Allen (CLA), an independent CPA firm. CLA – has been a partner for the past 7 years. CLA has more than 60 years of quality, service experience, is the eight-largest firm in the country and has been recognized as one of the 2021 top 100 accounting firms by Accounting Today. CLA performs the largest number of single audits in the United States, more than 1,000 annually, and has received the Single Audit Resource Center (SARC) Award for Excellence in Knowledge, Value and Overall Client Satisfaction.

We'd like to acknowledge that as of January 2024, Tracey McDermott has resigned as CFO. Our VP of Corporate Finance, David Tanner, who has been with TURN BHS for 9 years will now be overseeing the Corporate Finance Department.

Please find attached the following:

- Audited Financial Statements in accordance with Uniform Guidance; with an unmodified opinion from CLA
- Single audit; and
- Independent Auditors Report

Please let us know if you have any questions or require additional information.

Sincerely,


James C Callaghan Jr. (Feb 29, 2024 12:05 PST)

James C Callaghan, Jr.
CEO and President
TURN Behavioral Health Services
David Tanner, VP of Corporate Finance

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES**

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORT**

YEARS ENDED JUNE 30, 2023 AND 2022



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MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mental Health Systems, Inc.
dba: TURN Behavioral Health Services
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Mental Health Systems, Inc., dba: TURN Behavioral Health Services, (the Organization or MHS), which comprises the statement 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 financial statements referred to above present fairly, in all material respects, the financial position of the organization as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2023 the Organization adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this 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 Mental Health Systems, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mental Health Systems, 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 Mental Health Systems, 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.

Board of Directors
Mental Health Systems, Inc.
dba: TURN Behavioral Health Services

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2024, on our consideration of Mental Health Systems, 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 Mental Health Systems, Inc.'s 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 Mental Health Systems, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Los Angeles, California
January 5, 2024

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,829,081	\$ 828,168
Contracts and Grants Receivable, Net	22,341,543	21,317,612
Other Receivables	44,810	283,552
Prepaid Expenses	897,756	869,241
Deposits	1,273,380	1,282,994
Property and Equipment, Net	1,355,617	1,492,022
Total Current Assets	27,742,187	26,073,589
NONCURRENT ASSETS		
Operating Right of Use Asset	14,505,454	-
	14,505,454	-
Total Assets	\$ 42,247,641	\$ 26,073,589
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 8,304,083	\$ 7,383,560
Short-Term Lease Liability - Operating	5,446,658	-
Accrued Liabilities	8,321,133	6,493,995
Deferred Revenue	118,063	200,283
Line of Credit	13,551,493	12,719,959
Notes Payable	1,732,495	542,125
Total Current Liabilities	37,473,925	27,339,922
NONCURRENT LIABILITIES		
Long-Term Lease Liability - Operating	9,243,615	-
Total Noncurrent Liabilities	9,243,615	-
Total Liabilities	46,717,540	27,339,922
NET ASSETS		
Without Donor Restrictions	(4,469,899)	(1,266,333)
Total Net Assets	(4,469,899)	(1,266,333)
Total Liabilities and Net Assets	\$ 42,247,641	\$ 26,073,589

See accompanying Notes to Consolidated Financial Statements.

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Mental Health Systems - Contract Revenue	\$ 98,067,975	\$ -	\$ 98,067,975
Mental Health Systems - Other Revenue	928,676	-	928,676
Mental Health Systems - Donations	106,473	-	106,473
Total Revenues and Other Support	<u>99,103,124</u>	<u>-</u>	<u>99,103,124</u>
EXPENSES			
Mental Health Systems - Program Services	87,363,222	-	87,363,222
Mental Health Systems - Management and General	14,690,793	-	14,690,793
Mental Health Systems - Fundraising	135,582	-	135,582
Total Expenses	<u>102,189,597</u>	<u>-</u>	<u>102,189,597</u>
OTHER CHANGES			
Contract Settlements	<u>(117,093)</u>	<u>-</u>	<u>(117,093)</u>
CHANGE IN NET ASSETS	(3,203,566)	-	(3,203,566)
Net Assets - Beginning of Year	<u>(1,266,333)</u>	<u>-</u>	<u>(1,266,333)</u>
NET ASSETS - END OF YEAR	<u><u>\$ (4,469,899)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (4,469,899)</u></u>

See accompanying Notes to Consolidated Financial Statements.

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Mental Health Systems - Contract Revenue	\$ 93,554,678	\$ -	\$ 93,554,678
Mental Health Systems - Other Revenue	1,360,411	-	1,360,411
Mental Health Systems - Donations	271,291	-	271,291
Total Revenues and Other Support	<u>95,186,380</u>	<u>-</u>	<u>95,186,380</u>
EXPENSES			
Mental Health Systems - Program Services	82,987,674	-	82,987,674
Mental Health Systems - Management and General	12,803,124	-	12,803,124
Mental Health Systems - Fundraising	156,135	-	156,135
Total Expenses	<u>95,946,933</u>	<u>-</u>	<u>95,946,933</u>
OTHER CHANGES			
Contract Settlements	<u>(35,689)</u>	<u>-</u>	<u>(35,689)</u>
CHANGE IN NET ASSETS			
	(796,242)	-	(796,242)
Net Assets - Beginning of Year	<u>(470,091)</u>	<u>-</u>	<u>(470,091)</u>
NET ASSETS - END OF YEAR	<u><u>\$ (1,266,333)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,266,333)</u></u>

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	Mental Health Systems			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 42,864,531	\$ 4,897,616	\$ 35,931	\$ 47,798,078
Employee Benefits	4,501,289	490,498	6,281	4,998,068
Payroll Taxes	3,188,533	341,478	3,091	3,533,102
Total Salary Related Expenses	<u>50,554,353</u>	<u>5,729,592</u>	<u>45,303</u>	<u>56,329,248</u>
Program Expense	10,574,115	72,725	1,282	10,648,122
Consulting Fees	6,922,523	1,028,903	-	7,951,426
Occupancy	7,095,975	761,883	8,134	7,865,992
Purchased Services	3,476,148	-	-	3,476,148
Professional Fees and Outside Services	993,464	1,804,456	60,467	2,858,387
Utilities and Telephone	2,427,802	194,869	1,424	2,624,095
Interest and Bank Charges	24,863	1,998,139	-	2,023,002
Insurance	833,158	844,007	778	1,677,943
Computer Expense	321,387	963,416	14,400	1,299,203
Miscellaneous and Unallowable Expense	195,299	618,196	-	813,495
Equipment Purchase	726,120	64,275	76	790,471
Travel	693,378	87,560	1,068	782,006
Office Supplies	666,977	57,800	291	725,068
Taxes and Licenses	593,181	62,540	112	655,833
Equipment Rental	347,955	14,437	152	362,544
Staff Development	281,479	55,374	85	336,938
Laboratory Fees	248,220	-	-	248,220
Equipment and Maintenance	232,992	14,181	-	247,173
Printing and Postage	124,241	41,138	673	166,052
Dues and Subscriptions	15,687	120,258	1,337	137,282
Expenses before Depreciation and Amortization	<u>87,349,317</u>	<u>14,533,749</u>	<u>135,582</u>	<u>102,018,648</u>
Depreciation and Amortization	<u>13,905</u>	<u>157,044</u>	<u>-</u>	<u>170,949</u>
Total Expenses	<u><u>\$ 87,363,222</u></u>	<u><u>\$ 14,690,793</u></u>	<u><u>\$ 135,582</u></u>	<u><u>\$ 102,189,597</u></u>

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Mental Health Systems			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 41,776,150	\$ 5,550,319	\$ 99,553	\$ 47,426,022
Employee Benefits	4,530,558	532,225	13,091	5,075,874
Payroll Taxes	3,033,026	335,873	6,697	3,375,596
Total Salary Related Expenses	<u>49,339,734</u>	<u>6,418,417</u>	<u>119,341</u>	<u>55,877,492</u>
Program Expense	9,302,921	31,101	2,061	9,336,083
Consulting Fees	6,512,611	1,673,159	-	8,185,770
Occupancy	6,406,295	497,458	6,179	6,909,932
Purchased Services	3,401,699	-	-	3,401,699
Utilities and Telephone	2,333,536	214,230	819	2,548,585
Interest and Bank Charges	22,368	1,572,421	-	1,594,789
Insurance	761,197	611,657	1,273	1,374,127
Professional Fees and Outside Services	790,329	435,252	4,733	1,230,314
Equipment Purchase	508,623	61,164	336	570,123
Computer Expense	541,884	76,993	17,560	636,437
Office Supplies	428,590	193,116	510	622,216
Equipment Rental	514,272	55,402	235	569,909
Taxes and Licenses	565,872	129,090	257	695,219
Miscellaneous and Unallowable Expense	511,113	50,107	-	561,220
Travel	212,638	445,431	-	658,069
Staff Development	209,850	93,343	99	303,292
Laboratory Fees	246,474	-	-	246,474
Printing and Postage	111,477	12,495	-	123,972
Equipment and Maintenance	132,594	49,848	2,657	185,099
Dues and Subscriptions	12,734	109,372	75	122,181
Expenses Before Depreciation				
Depreciation and	82,866,811	12,730,056	156,135	95,753,002
Depreciation and Amortization	<u>120,863</u>	<u>73,068</u>	<u>-</u>	<u>193,931</u>
Total Expenses	<u>\$ 82,987,674</u>	<u>\$ 12,803,124</u>	<u>\$ 156,135</u>	<u>\$ 95,946,933</u>

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (3,203,566)	\$ (796,242)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	170,949	193,931
Lease Transition Adjustment	184,819	-
(Increase) Decrease in Assets:		
Contracts and Grants Receivable, Net	(1,023,931)	3,481,461
Other Receivables	238,742	(143,332)
Prepaid Expenses	(28,515)	(368,879)
Deposits	9,614	(26,604)
Increase (Decrease) in Liabilities:		
Accounts Payable	920,523	494,729
Accrued Liabilities	1,827,138	(2,418,977)
Deferred Revenue	(82,220)	(14,291)
Net Cash Provided (Used) by Operating Activities	(986,447)	401,796
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(34,543)	(185,233)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on Line of Credit	97,863,326	96,689,111
Borrowings on Notes Payable	2,500,000	-
Payments Made on Line of Credit	(97,031,792)	(97,688,065)
Payments Made on Notes Payable	(1,309,631)	(754,874)
Net Cash Provided (Used) by Financing Activities	2,021,903	(1,753,828)
 NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	1,000,913	(1,537,265)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	828,168	2,365,433
 CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	\$ 1,829,081	\$ 828,168
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year:		
Interest	\$ 1,410,959	\$ 994,076

See accompanying Notes to Consolidated Financial Statements.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 ORGANIZATION

Mission and History

Mental Health Systems, Inc., dba: TURN Behavioral Health Services, (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

MHS 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 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 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.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 ORGANIZATION (CONTINUED)

Nature of Activities (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% and 98.15% of the Organization's support for the years ended June 30, 2023 and 2022, respectively, came from government contracts.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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 (GAAP). These standards require that MHS 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 statements of activities as Net Assets Released from Restrictions.

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 nine 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, 2023 and 2022.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk (Continued)

Approximately 48% and 52%, respectively, 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, 2023 and 2022, 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 GAAP, 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 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 \$577,584 and \$396,514 that have not been recognized at June 30, 2023 and 2022, respectively, because qualifying expenditures have not yet been incurred, with no advance payments received or recognized in the statement of financial position as deferred revenue.

Donated Services and Materials

Consistent with GAAP, 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.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial statements in conformity with GAAP 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 statement of activities, and in the 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.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. 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.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards (Continued)

The Organization adopted the requirements of the guidance effective July 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption, while continuing to present the comparative period in accordance with the guidance under the lease standard in effect during that period.

The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Foundation has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Organization's ROU assets.

Leases

The Organization determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets – operating and lease liability – operating, and finance leases are included in right-of-use (ROU) assets – financing and lease liability – financing in the statement of financial position.

ROU 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. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. 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 operating lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statement of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of all lease liabilities.

The Organization has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

Subsequent Events

Management has evaluated subsequent events through January 5, 2024, the date the financial statements were available to be issued.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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:

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 1,829,081	\$ 828,168
Contracts and Grants Receivable	22,341,543	21,317,612
Total	<u>\$ 24,170,624</u>	<u>\$ 22,145,780</u>

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

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, 2023 and 2022, 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>2023</u>	<u>2022</u>
Contracts Receivable	\$ 22,341,543	\$ 21,317,612
Less: Allowance for Doubtful Accounts	-	-
Total Due in One Year or Less	<u>\$ 22,341,543</u>	<u>\$ 21,317,612</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
Land	\$ 555,260	\$ 555,260
Building and Facilities	994,864	976,889
Vehicles	722,015	722,015
Furniture, Fixtures, and Equipment	493,754	493,754
Leasehold Improvements	683,935	683,935
Software	3,175,027	3,159,002
Total Property and Equipment	6,624,855	6,590,855
Less: Accumulated Depreciation	(5,269,238)	(5,098,833)
Property and Equipment, Net	<u>\$ 1,355,617</u>	<u>\$ 1,492,022</u>

Depreciation expense for the fiscal years ended June 30, 2023 and 2022 was \$170,949 and \$193,931, respectively.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 6 ACCRUED LIABILITIES

	2023	2022
Accrued Payroll	\$ 1,996,937	\$ 2,379,924
Accrued Benefits	3,555,376	3,473,582
Other Liabilities	2,768,820	640,489
Total Accrued Liabilities	<u>\$ 8,321,133</u>	<u>\$ 6,493,995</u>

NOTE 7 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 was, increased to \$17,500,000 in October 2020. The LOC has a variable interest rate of prime rate plus 1.50% and matures in January 2027. The LOC contains certain financial covenants and ratio requirements and as of June 30, 2023, the Organization was compliant with all except for the debt service coverage ratio. MHS considers this to be a temporary matter due largely to the slowdown in funder payments during the Covid pandemic. MHS also received a waiver in regards to this covenant. As of June 30, 2023, the line of credit balance was \$13,551,493 and had an interest rate of 10.00%.

NOTE 8 NOTES PAYABLE

Notes payable consist of the following as of June 30:

	2023	2022
Clementine	\$ 512,495	\$ 528,732
CNH Term Loan	1,220,000	-
Vermont	-	13,393
Total Notes Payable	<u>\$ 1,732,495</u>	<u>\$ 542,125</u>
Due in One Year	\$ 1,237,025	\$ 29,622
Due in Two to Five Years	98,358	73,224
Thereafter	397,112	439,279
Total	<u>\$ 1,732,495</u>	<u>\$ 542,125</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, 2023 and 2022 was \$512,495 and \$528,732, 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, 2023 and 2022 was \$0- and \$13,393, respectively.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 NOTES PAYABLE (CONTINUED)

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 \$40,000 until note is paid in full. As of June, 2023, the note had an interest rate of 10% and a balance of \$1,220,000.

NOTE 9 COMMITMENTS AND CONTINGENCIES

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.

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, 2023 and 2022 of \$117,093 and \$35,689, 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 10 LEASES

The Organization leases equipment as well as certain operating and office facilities for various terms under long-term, noncancelable lease agreements. Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Additionally, the agreements generally require the Foundation to pay real estate taxes, insurance, and common area maintenance.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 10 LEASES (CONTINUED)

The following tables provide quantitative information concerning the Foundation's leases for the year ended June 30, 2023:

	2023
Operating Lease Cost	\$ 6,417,503
Variable Lease Cost	-
Total Lease Cost	<u>\$ 6,417,503</u>

Other Information:

Cash Paid for Amounts Included in the
Measurement of Lease Liabilities:

Operating Cash Flows from Operating Leases	\$ 6,232,684
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 20,075,364

Weighted-Average Remaining Lease Term

- Operating Leases	3.10
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Weighted-Average Discount Rate - Operating Leases

5.00%

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023 is as follows:

<u>Year Ending June 30,</u>	<u>Operating</u>	<u>Finance</u>	<u>Totals</u>
2024	\$ 6,029,507	\$ -	\$ 6,029,507
2025	4,878,601	-	4,878,601
2025	2,797,540	-	2,797,540
2026	1,383,903	-	1,383,903
2027	617,056	-	617,056
Thereafter	138,300	-	138,300
Undiscounted Cash Flows	<u>\$ 15,844,907</u>	<u>\$ -</u>	<u>\$ 15,844,907</u>
Less: Present Value Discount	(1,154,635)	-	(1,154,635)
Total Present Value	<u>\$ 14,690,272</u>	<u>\$ -</u>	<u>\$ 14,690,272</u>

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.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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, 2023 and 2022, total expense was \$1,102,520 and \$1,066,184, respectively.

The Organization also maintains a 401(k) 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 net loss of <\$3,203,567> for the year ended June 30, 2023. As of June 30, 2023, the Organization's accumulated net asset deficit was <\$4,469,898>.

Management believes the Organization's present cash flows will enable it to meet its obligations for 12 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.
dba: TURN Behavioral Health Services
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 financial statements of Mental Health Systems, Inc., dba: TURN Behavioral Health Services, (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 January 5, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Board of Directors
Mental Health Systems, Inc.
dba: TURN Behavioral Health Services

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 determination of the 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
January 5, 2024



**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.
dba: TURN Behavioral Health Services
San Diego, California

Report on Compliance for Each Major Federal Program

We have audited the compliance of Mental Health Systems, Inc., dba: TURN Behavioral Health Services, (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, 2023. 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.

Board of Directors
Mental Health Systems, Inc.
dba: TURN Behavioral Health Services

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, 2023.

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.

Board of Directors
Mental Health Systems, Inc.
dba: TURN Behavioral Health Services

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Organization as of and for the year ended June 30, 2023, and have issued our report thereon dated January 5, 2024, which contained an unmodified opinion on those 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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
January 5, 2024

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2023**

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 | _____ <u>x</u> no |
| • Significant deficiency(ies) identified? | _____ yes | _____ <u>x</u> none reported |
| 3. Noncompliance material to financial statements noted? | _____ yes | _____ <u>x</u> no |

Federal Awards

- | | | |
|---|------------|------------------------------|
| 1. Internal control over major federal programs: | | |
| • Material weakness(es) identified? | _____ yes | _____ <u>x</u> no |
| • Significant deficiency(ies) identified? | _____ yes | _____ <u>x</u> 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 | _____ <u>x</u> no |

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
93.778	Medical Assistance Program
93.959	Substance Abuse Prevention and Treatment

- | | | |
|--|---------------------|----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ <u>1,042,960</u> | |
| Auditee qualified as low-risk auditee? | _____ <u>x</u> yes | _____ no |

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023**

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.
DBA: TURN BEHAVIORAL HEALTH SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023

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:				
Chula Vista FPP	99.XXX	Federal Probation Program	0974-2022-SA02	\$ 2,478
Chula Vista FPP	99.XXX	Federal Probation Program	0974-21-09MHC	3,642
Chula Vista FPP	99.XXX	Federal Probation Program	0974-21-03MHSB	140,325
Chula Vista FPP	99.XXX	Federal Probation Program	0974-2022-MH02	177,253
Chula Vista FPP	99.XXX	Federal Probation Program	0974-21-05SUDSB	120,778
Chula Vista FPP	99.XXX	Federal Probation Program	0974-2022-SA02	37,248
North County FPP SA03	99.XXX	Federal Probation Program	0974-2022-SA03	243,109
SD Central FPP	99.XXX	Federal Probation Program	0974-21-11UAC	98,298
				<u>823,131</u>
Department of Education Office of Special Education and Rehabilitative Services:				
Primary Prevention - Needles	84.425L	County of San Bernardino	21-434	60,734
Primary Prevention - San Bernardino	84.425L	County of San Bernardino	21-434	47,119
Employment Services	84.126A	State of California	31878	700,282
				<u>808,135</u>
Department of Health and Human Services:				
North Star ACT	93.778	County of San Diego	556420	812,987
San Diego Center for Change	93.778	County of San Diego	554864	130,945
North County Drug Court	93.778	County of San Diego	554861	126,806
East County Drug Court	93.778	County of San Diego	554863	131,764
South County Drug Court	93.778	County of San Diego	554862	111,843
North County Drug Court	93.778	County of San Diego	567490	511,698
East County Drug Court	93.778	County of San Diego	567496	491,916
South County Drug Court	93.778	County of San Diego	567492	479,284
School Based- EPSDT	93.778	County of San Diego	518748	490,023
Center Star ACT	93.778	County of San Diego	565916	1,547,587
Therapeutic Behavioral Services SB	93.778	County of San Bernardino	21-471	412,986
Success First SB Wrap	93.778	County of San Bernardino	21-940	663,506
PRIDE	93.778	County of San Bernardino	22-474	24,669
North Coastal MHC	93.778	County of San Diego	566306	1,495,464
North Inland MHC	93.778	County of San Diego	566305	1,496,677
Vista BPSR RA/MC	93.778	County of San Diego	566306	743,269
Kinesis North BPSR MHSA Adult MC	93.778	County of San Diego	566305	935,774
STEPS	93.778	County of San Diego	564979	207,972
FSP SBCM	93.778	County of San Diego	556421	55,592
FSP SBCM/TAY	93.778	County of San Diego	556421	29,582
FSP SBCM	93.778	County of San Diego	567664	149,420
FSP SBCM/TAY	93.778	County of San Diego	567664	45,738
ACTION Central (MH)	93.778	County of San Diego	554865	273,167
ACTION Central (SUD)	93.778	County of San Diego	554865	449,136
ACTION East MH	93.778	County of San Diego	555095	633,981
City Star ACT	93.778	County of San Diego	556358	767,750
North Coastal ACT	93.778	County of San Diego	556419	697,410
Family Recovery Center Residential	93.778	County of San Diego	553434	2,050,058
Alianza BPSR	93.778	County of San Diego	560065	608,088
Needles Outpatient Services	93.778	County of San Bernardino	22-474	32,228
Yucca Valley Outpatient	93.778	County of San Bernardino	22-474	58,061
West Valley One Stop TAY Center	93.778	County of San Bernardino	20-365	764,110

See accompanying Notes to Schedule of Federal Awards.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2023

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Award or Contract Number	Federal Expenditures
Department of Health and Human Services: (continued)				
San Bernardino ACT	93.778	County of San Bernardino	18-389	\$ 677,714
Needles Recovery Services	93.778	County of San Bernardino	21-985	16,294
Central Valley Recovery Services	93.778	County of San Bernardino	21-985	52,761
Yucca Valley Recovery Services	93.778	County of San Bernardino	21-985	24,256
Fresno IMPACT MH	93.778	County of Fresno	20-014	1,109,889
Fresno IMPACT SUD	93.778	County of Fresno	22-176	307,941
Fresno First Residential DMC	93.778	County of Fresno	22-176	2,179,295
Family and Adult Alternatives (FAA) DMC	93.778	County of Fresno	22-176	348,249
Family & Youth Alternatives (FYA) DMC	93.778	County of Fresno	22-176	60,033
Teen Recovery Center (North Inland)	93.778	County of San Diego	565055	740,042
Teen Recovery Center (North Central)	93.778	County of San Diego	565056	407,383
ACTION East SUD	93.778	County of San Diego	555095	848,251
Serial Inebriate Program	93.778	County of San Diego	554929	706,378
Santa Clara ACTion ACT	93.778	Santa Clara County	4300021653_CSS-A01 Adult/Older Adult	919,106
				<u>25,827,083</u>
North Coastal Mental Health Clinic	93.150	County of San Diego	566306	86,450
North Inland Mental Health Clinic	93.150	County of San Diego	566305	94,075
				<u>180,525</u>
Kern ACT-ION	93.275	County of Kern	762-2019	1,284,328
Fresno Home - Triage	14.231	City of Fresno	E-20-MW-06-0001	499,329
Primary Prevention - Needles	93.498	County of San Bernardino	21-434	11,518
Primary Prevention - San Bernardino	93.498	County of San Bernardino	21-434	13,154
				<u>24,672</u>
Floyd Farrow Behavioral Health Unit	93.958	County of Fresno	18-622	139,889
Central Valley Prevention	93.959	County of San Bernardino	21-434	407,564
Teen Recovery Center (North Inland)	93.959	County of San Diego	565055	35,270
Teen Recovery Center (North Central)	93.959	County of San Diego	565056	26,478
North Inland Community Prevention	93.959	County of San Diego	551559	101,642
Serial Inebriate Program	93.959	County of San Diego	554929	87,199
PRIDE	93.959	County of San Bernardino	22-474	57,170
San Bernardino Drug Court	93.959	County of San Bernardino	20-490	56,058
Fontana Center for Change	93.959	County of San Bernardino	20-490	26,968
Central Valley Recovery Prevention	93.959	County of San Bernardino	21-985	137,159
Needles Prevention Program	93.959	County of San Bernardino	21-434	289,561
Needles Recovery Center	93.959	County of San Bernardino	21-985	124,967
Needles Outpatient Services	93.959	County of San Bernardino	22-474	13,907
Yucca Valley Outpatient	93.959	County of San Bernardino	22-474	25,054
Yucca Valley Recovery Center	93.959	County of San Bernardino	21-985	110,473
North Inland Community Prevention	93.959	County of San Diego	567585	307,168
Joshua Tree Drug Court	93.959	County of San Bernardino	20-490	25,549
				<u>1,832,187</u>
Total				29,788,013

See accompanying Notes to Schedule of Federal Awards.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2023

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Award or Contract Number	Federal Expenditures
Department of Housing and Urban Development:				
CoC Permanent Supportive Housing I	14.267	Federal-HUD	CA0693L9D012114	\$ 341,663
CoC Permanent Supportive Housing II	14.267	Federal-HUD	CA0689L9D012209	63,777
CoC Permanent Supportive Housing II	14.267	Federal-HUD	CA0689L9D012108	80,910
Shelter + Care IV (SDHC City) (41st Street)	14.267	Federal-HUD	HHI-23-16	493,449
CoC Permanent Supportive Housing III	14.267	Federal-HUD	CA0689L9D012209	36,039
CoC Permanent Supportive Housing III	14.267	Federal-HUD	CA0689L9D012108	40,487
CoC Permanent Supportive Housing IIIa	14.267	Federal-HUD	CA0689L9D012209	22,995
CoC Permanent Supportive Housing IIIa	14.267	San Diego Housing Commission	CA0689L9D012108	22,508
FRC Next Steps	14.267	Federal-HUD	CA1698L9D012003	28,152
FRC Next Steps	14.267	Federal-HUD	CA1698L9D012104	92,797
Safe Haven	14.267	Federal-HUD	CA0708L9D012114	162,643
Safe Haven	14.267	Federal-HUD	CA0708L9D012215	53,746
Hacienda Housing	14.267	Federal-HUD	CA1567L9T142004	54,786
				<u>1,493,952</u>
SPONSOR BASED VOUCHERS VIP	14.881	San Diego Housing Commission	HAP	96,926
Sponsor Based Vouchers II	14.881	San Diego Housing Commission	HAP	500,548
ACTION Central SBS MH	14.881	San Diego Housing Commission	HAP	229,128
ACTION Central SBS	14.881	San Diego Housing Commission	HAP	450,916
Center Star [50] SBS Housing	14.881	San Diego Housing Commission	HAP	131,473
City Star ACT SBS Vouchers	14.881	San Diego Housing Commission	HAP	359,379
				<u>1,768,370</u>
				<u>3,262,322</u>
Department of Labor:				
San Bernardino ACT	21.019	County of San Bernardino	18-389	<u>83,747</u>
Total Expenditures of Federal Awards				<u><u>\$ 34,765,348</u></u>

See accompanying Notes to Schedule of Federal Awards.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023

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 percent de minimis indirect cost rate allowed under the Uniform Guidance, as the Organization has a negotiated rate for indirect costs.



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