

**Audited Financial Statements
and Other Information**



June 30, 2018

Quigley & Miron

CLARE | MATRIX
Audited Financial Statements and Other Information
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June 30, 2018

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Independent Auditor's Report

Board of Directors
CLARE|MATRIX
Santa Monica, California

Report on the Financial Statements

We have audited the accompanying financial statements of CLARE|MATRIX, a nonprofit organization, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the period from April 2, 2018 (date of merger) through June 30, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

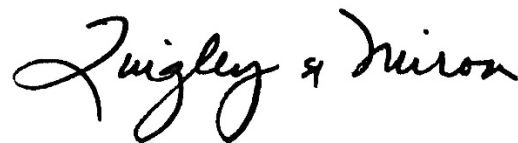
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CLARE|MATRIX as of June 30, 2018, and the changes in its net assets and its cash flows for the period from April 2, 2018 (date of merger) through June 30, 2018, in accordance 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 May 9, 2019, on our consideration of CLARE|MATRIX's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 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 CLARE|MATRIX's internal control over financial reporting and compliance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule of proforma statement of activities for the year ended June 30, 2018, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In our opinion, the information is fairly stated in all material respects in relation to the statements as a whole.

A handwritten signature in black ink that reads "Quigley & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California
May 9, 2019

CLARE|MATRIX
Statement of Financial Position
June 30, 2018

Assets

Current Assets

Cash and cash equivalents	\$ 3,004,199
Investments—Note D	116,611
Pledges receivable, net—Note F	3,045
Contracts, grants, and other receivables, net—Note G	2,369,962
Prepaid expenses and other assets	491,315

Total Current Assets 5,985,132

Non-Current Assets

Property and equipment, net—Note H	7,572,389
Unamortized debt costs	82,507

Total Non-Current Assets 7,654,896

Total Assets \$ 13,640,028

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 1,012,650
Accrued expenses	433,424
Accrued interest payable	398,189
Deferred revenue	3,621
Long-term debt, current portion—Note I	1,227,722

Total Current Liabilities 3,075,606

Long-term debt, noncurrent portion—Note I	5,576,376
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Total Liabilities 8,651,982

Net Assets

Without donor restrictions	
Undesignated	3,980,142
Board-designated cash reserve—Note C	125,696

Total Net Assets Without Donor Restrictions 4,105,838

With donor restrictions—Note J	882,208
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Total Net Assets 4,988,046

Total Liabilities and Net Assets \$ 13,640,028

See notes to financial statements.

CLARE|MATRIX
Statement of Activities
Period from April 2, 2018 through June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Restrictions</u>	<u>Total</u>
Operating Activities			
Support and Revenues			
Government contracts	\$ 3,225,735	\$	\$ 3,225,735
Contributions	84,593	5,000	89,593
In-kind contributions	19,320		19,320
Service fees, net of discounts of \$60,203	140,474		140,474
Research income	126,862		126,862
Training income	141,312		141,312
Program revenue	10,998		10,998
Interest and dividends—Note D	3,403		3,403
Net assets released from restrictions	497,610	(497,610)	
Total Support and Revenues	4,250,307	(492,610)	3,757,697
Expenses			
Program services	3,739,021		3,739,021
Management and general	494,077		494,077
Fundraising	114,552		114,552
Total Expenses	4,347,650		4,347,650
Change in Net Assets From Operations	(97,343)	(492,610)	(589,953)
Nonoperating Activities			
Investment gains—Note D	2,825		2,825
Total Nonoperating Activities	2,825		2,825
Change in Net Assets	(94,518)	(492,610)	(587,128)
Net Assets at Beginning of Year			
Net assets transferred from CLARE and Matrix at time of merger	4,200,356	1,374,818	5,575,174
Net Assets at End of Year	\$ 4,105,838	\$ 882,208	\$ 4,988,046

See notes to financial statements.

CLARE | MATRIX
Statement of Functional Expenses
Period from April 2, 2018 through June 30, 2018

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and wages	\$ 1,488,855	\$ 237,555	\$ 74,173	\$ 1,800,583
Payroll taxes and benefits	323,926	39,055	15,192	378,173
Total Payroll Expense	1,812,781	276,610	89,365	2,178,756
Amortization of loan costs	2,264			2,264
Bank charges	2,930	2,372	371	5,673
Board expense	1,270	918		2,188
Bus tokens	1,023			1,023
Conference, meals, and travel	22,919	1,796	723	25,438
Depreciation and amortization	109,809	707	363	110,879
Donated goods and food	11,670			11,670
Donated services	7,650			7,650
Dues and fees	17,999	2,644	391	21,034
Equipment expenses	70,153	4,496	922	75,571
Food	35,318		1,109	36,427
Insurance—general	77,421	3,227	234	80,882
Interest expense	46,685	469		47,154
Laboratory fees	20,826	8		20,834
Literature	209	125		334
Medical supplies	18,247			18,247
Office supplies	10,767			10,767
Payroll expense	7,102	413	489	8,004
Postage	4,707	2,251	530	7,488
Printing	16,960	1,243	7,981	26,184
Professional fees	504,722	137,725	6,791	649,238
Property taxes	184	573		757
Provision for doubtful accounts	298,157			298,157
Recreation	10,069	189		10,258
Rent	348,456	25,282		373,738
Repairs and maintenance	97,571	4,766	468	102,805
Staff expense	1,758	909	131	2,798
Publicity and information	18,436	5,065	616	24,117
Supplies	76,753	6,444	2,652	85,849
Telephone	25,129	6,612	307	32,048
Training	8,460	197	572	9,229
Utilities	38,543	3,413		41,956
Vehicle expense	10,747	5,520	537	16,804
Vehicle insurance	1,326	103		1,429
Total Expenses	\$ 3,739,021	\$ 494,077	\$ 114,552	\$ 4,347,650

See notes to financial statements.

CLARE | MATRIX
Statement of Cash Flows
Period from April 2, 2018 through June 30, 2018

Cash Flows from Operating Activities

Change in net assets	\$ (587,128)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Provision for doubtful accounts	298,157
Amortization of forgivable loans	(35,714)
Depreciation and amortization	110,879
Loan issuance cost refund	150
Amortization of loan costs	2,264
Investment gains	(2,825)
Changes in operating assets and liabilities:	
Pledges receivable	74,395
Contracts, grants, and other receivables	(902,842)
Prepaid expenses and other assets	(147,771)
Accounts payable	248,447
Accrued expenses	834
Accrue interest payable	7,500
Deferred revenue	(38,327)

**Net Cash Used in
Operating Activities** **(971,981)**

Cash Flows from Investing Activities

Proceeds from sales of investments	12
Cash transferred by CLARE and Matrix at time of merger	4,610,171
Purchases of property and equipment	(608,793)

**Net Cash Provided by
Investing Activities** **4,001,390**

Cash Flows from Financing Activities

Principal payments on long-term debt	(25,210)
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**Net Cash Used in
Financing Activities** **(25,210)**

Increase in Cash and Cash Equivalents **3,004,199**

Cash and Cash Equivalents at Beginning of Year

Cash and Cash Equivalents at End of Year **\$ 3,004,199**

Supplementary Disclosures

Interest paid	\$ 47,154
Income taxes paid	\$ -0-

See notes to financial statements.

CLARE|MATRIX
Notes to Financial Statements
June 30, 2018

Note A—Organization

On April 2, 2018, CLARE|MATRIX was formed through the merger of CLARE Foundation and The Matrix Institute on Addictions. Net assets transferred by CLARE Foundation amounted to \$4,386,408; net assets transferred by The Matrix Institute on Addictions amounted to \$1,188,766. CLARE|MATRIX is a nonprofit organization that changes the lives of individuals and families and strengthens communities affected by alcohol, substance use, and behavioral health issues by providing proven and effective treatment, education, research, and training. The CLARE Foundation and Matrix Institute on Addictions joined forces and today, we have become an industry-defining organization that successfully combines the CLARE Foundation's 50+ years of expertise delivering an extensive continuum of residential services with the Matrix Model – an evidenced-based practice that has worldwide recognition for its outpatient treatment model, research and training. CLARE|MATRIX's continuum of care includes assessment and referral, detoxification, residential or outpatient treatment, prevention and mental health services. CLARE|MATRIX program services have been certified by CARF, an international accrediting agency.

Note B—Significant Accounting Policies

Financial Statement Presentation—In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. CLARE|MATRIX has adopted ASU 2016-14 for the period from April 2, 2018 (date of merger) through June 30, 2018 and has adjusted the presentation of these statements accordingly.

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. CLARE|MATRIX recognizes contributions, including unconditional promises to give, as revenue in the period received. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of CLARE|MATRIX and changes therein are classified and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of CLARE|MATRIX. These net assets may be used at the discretion of CLARE|MATRIX's management and the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of CLARE|MATRIX and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit CLARE|MATRIX to use all or part of the income earned on related investments for general or specific purposes.

CLARE|MATRIX

Notes to Financial Statements—Continued

Note B—Significant Accounting Policies—Continued

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. It is the policy of CLARE|MATRIX to record contributions that are restricted by the donor as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of CLARE|MATRIX's program services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Income Taxes—CLARE|MATRIX is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Accordingly, no provision for income taxes is included in the financial statements. In addition, CLARE|MATRIX has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered 'more likely than not' to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2018. Generally, CLARE|MATRIX's information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Recently Adopted Accounting Principle—In May 2015, FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share as a practical expedient. CLARE|MATRIX has adopted ASU 2015-07 for the period from April 2, 2018 (date of merger) through June 30, 2018, however, the retrospective approach requires that an investment for which fair value is measured using NAV as a practical expedient be removed from the fair value hierarchy in all periods presented in the financial statements.

Cash Equivalents—CLARE|MATRIX considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Equipment—Property and equipment are stated at cost for purchased items, and at an estimated fair market value at date of gift, for donated items. CLARE|MATRIX uses the straight-line method of depreciation with a useful life of from three to ten years for automobiles and equipment and thirty-one years for buildings.

CLARE|MATRIX

Notes to Financial Statements—Continued

Note B—Significant Accounting Policies—Continued

Concentrations of Credit Risk—Financial instruments which potentially subject CLARE|MATRIX to concentrations of credit risk consist of cash, money market funds, certificates of deposit and investment securities. CLARE|MATRIX places its cash and certificates of deposit with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) at 100% for non-interest-bearing accounts and up to \$250,000 for interest-bearing accounts, per institution. CLARE|MATRIX places its money market funds with a large securities broker-dealer where the funds are guaranteed by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per institution. In addition, the broker-dealer has \$2,000,000 in supplementary insurance. At June 30, 2018, CLARE|MATRIX had no cash and cash equivalent balances in excess of the insured limits.

Investment securities may include common stock, mortgage and asset-backed securities, corporate bonds and government securities. The investment portfolio is managed by a large securities broker-dealer under an investment policy established by CLARE|MATRIX. CLARE|MATRIX's major funding sources are government agencies (including state and local agencies). Approximately 76% of its support and revenue for the period from April 2, 2018 (date of merger) through June 30, 2018 was derived from governmental sources.

Government Contract Revenue—Revenue earned on government fee-for-service contracts are recognized as the services are rendered. The contracts are generally paid on a cost-reimbursement basis.

In-Kind Contributions—A gift-in-kind is an item such as equipment, software, or a product that a donor voluntarily transfers to CLARE|MATRIX without charge or consideration, to further the mission of the organization. This includes services that provide specific professional skills in their area of expertise or skill set to address the needs of people in the CLARE|MATRIX program, staff, or administrative needs of the organization. Such services are recorded at fair value at the date of donation only if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

In-kind contributions received for programs are recorded as support in the financial statements at estimated value and also as an expense of providing program services. During the period from April 2, 2018 (date of merger) through June 30, 2018, the following in-kind contributions were received:

Goods and food	\$	11,670
Services		<u>7,650</u>
Total	\$	<u>19,320</u>

Service Fees—Service fees are recognized at the time services are provided.

Program Revenue—Program revenue is recognized when services are provided or supplies are sold.

CLARE | MATRIX

Notes to Financial Statements—Continued

Note B—Significant Accounting Policies—Continued

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program services and supporting services benefitted. The methods of expense allocation are as follows:

Method of Allocation	Allocated Expense
Based on % of FTEs:	Board expense
	Conference, meals, and travel
	Dues and fees
	Equipment expenses
	Food
	Laboratory fees
	Payroll expense
	Payroll taxes and benefits
	Postage
	Printing
	Professional fees
	Publicity and information
	Recreation
	Salaries and wages
	Staff expense
	Telephone
	Training
	Vehicle expense
	Vehicle insurance
Based on % of Sq Ft:	Depreciation and amortization
	Insurance—general
	Interest expense
	Property taxes
	Rent
	Repairs and maintenance
	Utilities
Avg between % of FTEs and % of Sq Ft:	Bank charges
	Literature
	Supplies
Charged directly to program:	Amortization of loan costs
	Bus tokens
	Donated goods and food
	Donated services
	Medical supplies
	Office supplies
	Provision for doubtful accounts

CLARE | MATRIX

Notes to Financial Statements—Continued

Note B—Significant Accounting Policies—Continued

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that can affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note C—Availability and Liquidity

CLARE | MATRIX's goal is generally to maintain financial assets to meet 60 days of operating expenses (approximately \$2,920,000). As part of its liquidity plan, CLARE | MATRIX has a board-designated cash reserve totaling \$125,696 designated to provide the organization with cash operating reserves.

The following represents the availability and liquidity of CLARE | MATRIX's financial assets at June 30, 2018 to cover operating expenses for the next fiscal year:

Cash and cash equivalents	\$ 3,004,199
Investments	116,611
Pledges receivable	3,045
Contracts, grants, and other receivables	2,369,962
Total	\$ 5,493,817

Board-designated assets consist of the following at June 30, 2018:

Investments	\$ 116,611
Money market funds	9,085
Total	\$ 125,696

Note D—Investments

As of June 30, 2018, investments consist of the following:

Stocks, options, and exchange traded funds	\$ 103,256
Mutual funds	13,072
Fixed income securities	283
Total	\$ 116,611

Investment income for the period from April 2, 2018 (date of merger) through June 30, 2018 consists of the following:

Interest and dividends	\$ 3,403
Investment gains	2,825
Total Investment Income	\$ 6,228

CLARE|MATRIX

Notes to Financial Statements—Continued

Note E—Fair Value Measurements

In determining the fair value of assets and liabilities, CLARE|MATRIX utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. CLARE|MATRIX determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Quoted market prices in active markets for identical assets or liabilities. Level 1 assets include equity securities and mutual funds valued at the closing price reported on the active market on which the individual securities are traded. CLARE|MATRIX's Level 1 assets consist of mutual funds and exchange traded funds at June 30, 2018.

Level 2—Observable market-based inputs, either directly or indirectly, but are other than quoted prices in actively traded markets. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable inputs that can be corroborated by observable market data. CLARE|MATRIX's Level 2 assets consist of certificates of deposit and mortgage- and asset-backed securities.

Level 3—Unobservable inputs that are supported by little or no market activity which are significant to the fair value of the asset or liability. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date. CLARE|MATRIX had no Level 3 assets or liabilities at June 30, 2018.

CLARE|MATRIX may utilize a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by CLARE|MATRIX to value private investments is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. CLARE|MATRIX had no assets or liabilities classified at NAV as a practical expedient during the period from April 2, 2018 (date of merger) through June 30, 2018.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2018 consist of investments in stocks, options, exchange traded funds, mutual funds, and fixed income funds, which are considered to have Level 1 inputs.

CLARE | MATRIX
Notes to Financial Statements—Continued

Note F—Pledges Receivable, Net

Net pledges receivable at June 30, 2018 consist of pledges for operations totaling \$3,045. the following:

Operations	\$ 3,045
	<u>3,045</u>
Gross	3,045
	<u>3,045</u>
Net	\$ 3,045

All pledges receivable are due within one year.

Activity in the allowance for doubtful accounts for the period from April 2, 2018 (date of merger) through June 30, 2018 follows:

Beginning of period	\$
Provision for doubtful accounts	(1,854)
Write-offs	1,854
	<u>1,854</u>
End of Period	\$

Note G—Contracts, Grants, and Other Receivables, Net

Net contracts, grants, and other receivables consist of the following at June 30, 2018:

Public funding agencies	\$ 2,733,065
Fees	129,424
	<u>129,424</u>
Gross	2,862,489
	<u>(492,527)</u>
Less allowance for doubtful accounts	(492,527)
	<u>(492,527)</u>
Net	\$ 2,369,962

Activity in the allowance for doubtful accounts for the period from April 2, 2018 (date of merger) through June 30, 2018 follows:

Balance transferred during merger	\$ (196,224)
Provision for doubtful accounts	(298,157)
Recoveries	1,854
	<u>1,854</u>
End of Period	\$ (492,527)

CLARE | MATRIX**Notes to Financial Statements—Continued****Note H—Property and Equipment, Net**

Net property and equipment consist of the following at June 30, 2018:

Land	\$	1,383,339
Buildings and improvements		8,711,377
Construction in progress		2,054,611
Furniture and fixtures		1,077,170
Transportation equipment		189,900
Leasehold improvements		382,712
		<hr/>
		13,799,109
Less accumulated depreciation and amortization		(6,226,720)
		<hr/>
		Net \$ 7,572,389

CLARE | MATRIX**Notes to Financial Statements—Continued****Note I—Long-Term Debt**

Long-term debt consists of the following at June 30, 2018:

Mortgage loan to Pacific Premier Bank, secured by deed of trust by property located at 1002 Pico Blvd., Santa Monica, CA, principal paid over 109 monthly installments, based upon a 300-month amortization, plus interest, with the balance due at maturity, April 1, 2028, interest is fixed at 4.75% for 84 months, thereafter variable interest rate plus 3.500%, based on the based on the average interbank rates for U.S. dollar denominated deposits in the London markets \$ 1,379,392

Mortgage loan to Pacific Premier Bank, secured by deed of trust on property located at 1023 Pico Blvd., Santa Monica, CA, principal paid over 109 monthly installments, based upon a 300-month amortization, plus interest, with the balance due at maturity, April 1, 2028, interest is fixed at 4.75% for 84 months, thereafter variable interest rate plus 3.500%, based on the based on the average interbank rates for U.S. dollar denominated deposits in the London markets 1,271,713

Mortgage loan to Pacific Premier Bank, secured by deed of of trust on properties located at 1867-1871 and 1865-1869 Ninth Street, Santa Monica, CA, principal and interest paid over a 300-month amortization period, remaining principal due at maturity in ten years, interest at 4.75% for seven years; adjustable thereafter at 6 month LIBOR plus 3.5%, with a floor equal to 4.75% 1,883,458

\$547,000 loan from California Department of Housing and Community Development-EHAPCD, secured by subordinated deed of trust on property located at 901 Pico Boulevard, Santa Monica, CA, interest rate at 3%, principal and accrued interest of \$4,451 to be forgiven upon final approval of EHAPCD, as the seven-year service agreement was completed in July 31, 2016 547,000

CLARE | MATRIX

Notes to Financial Statements—Continued

Note I—Long-Term Debt—Continued

\$436,820 loan from California Department of Housing and Community Development-EHAPCD, secured by subordinated deed of trust on property located at 907 Pico Pico Boulevard, Santa Monica, CA, interest rate at 3%, principal and accrued interest to be forgiven upon final approval of EHAPCD, as the seven-year service agreement was completed in July 31, 2016

\$ 436,820

\$1,000,000 loan from California Department of Housing and Community Development-EHAPCD, secured by subordinated deed of trust on property located at 844 Pico Boulevard, Santa Monica, CA, interest rate at 3%, principal and accrued interest to be forgiven upon completion of seven-year service agreement estimated to be completed November 2019

1,000,000

\$1,000,000 loan from Community Development Commission of the County of Los Angeles (HHPF-CCP) secured by subordinated deed of trust on property located at 844 Pico Boulevard, Santa Monica, CA, interest rate at 3%, principal and accrued interest to be forgiven annually, in equal installments, over a seven-year period from initial occupancy of the property, forgiveness estimated to be completed November 2019

285,715

Total Long-Term Debt

6,804,098

Less current portion

(1,227,722)

Long-Term Portion of Long-Term Debt

\$ 5,576,376

Future principal payments required by long-term debt as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Future Payments</u>	<u>Future Amortization</u>	<u>Total</u>
2019	\$ 101,045	\$ 1,126,677	\$ 1,227,722
2020	105,443	1,142,858	1,248,301
2021	111,219		111,219
2022	116,697		116,697
2023	119,687		119,687
Thereafter	3,980,472		3,980,472
Totals	\$ 4,534,563	\$ 2,269,535	\$ 6,804,098

CLARE|MATRIX**Notes to Financial Statements—Continued****Note J—Net Assets with Donor Restrictions**

Net assets with donor restrictions for the period from April 2, 2018 (date of merger) through June 30, 2018 are detailed below:

Subject to expenditure for specified purpose:	
Restricted for 9th Street Capital Project	\$ 786,168
Client residential programs	95,790
Other programs	250
Total	<u>\$ 882,208</u>

Net assets released from donor restrictions for the period from April 2, 2018 (date of merger) through June 30, 2018 are as follows:

Satisfaction of purpose restrictions	
9th Street Capital Project	\$ 492,610
Women's Treatment program	5,000
Total	<u>\$ 497,610</u>

A roll-forward of net assets with donor restrictions activity for the period from April 2, 2018 (date of merger) through June 30, 2018 is as follows:

	<u>9th Street Capital Project</u>	<u>Operating Programs</u>	<u>Total</u>
Balance at April 1, 2018	\$	\$	\$
Balance transferred during merger	1,278,779	96,039	1,374,818
Contributions		5,000	5,000
Releases	(492,611)	(4,999)	(497,610)
Balance at June 30, 2018	<u>\$ 786,168</u>	<u>\$ 96,040</u>	<u>\$ 882,208</u>

Net assets with donor restrictions relating to the capital campaign represent funds restricted for the renovation of the Residential Services facility.

Note K—Contingencies

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although this is a possibility, except as described below, the Board generally deems the contingency remote, since, by accepting a grant and its terms, the Board is acknowledging the requirements of the grantor at the time of receipt of the grant.

In the normal course of operations, CLARE|MATRIX is subject to certain loss contingencies, such as litigation. In management's opinion, the liability, if any, for such contingencies will not have a material effect on CLARE|MATRIX's financial position.

CLARE|MATRIX

Notes to Financial Statements—Continued

Note L—Lease Commitments

CLARE|MATRIX has a 16-year building lease at \$1 per year, ending August 31, 2019, which is used to support outpatient programs. CLARE|MATRIX also leases space under various leases, which expire in 2019 through 2027. Future minimum rental payments for these leases as of June 30, 2018 are as follows:

Year Ending June 30,

2019	\$ 1,654,458
2020	1,636,199
2021	1,236,715
2022	1,174,830
2023	1,122,848
Thereafter	<u>2,620,091</u>
Total	<u>\$ 9,445,141</u>

Note M—Retirement Plan

CLARE|MATRIX has a 403(b) Tax Sheltered Annuity Plan covering all eligible employees. Active participants may elect to have CLARE|MATRIX make salary reduction contributions on their behalf up to the maximum set by the applicable Internal Revenue Codes. The plan permits CLARE|MATRIX to make discretionary matching contributions on the first 6% of participant contributions. Matching contributions for the period from April 2, 2018 (date of merger) through June 30, 2018 totaled \$18,248.

Note N—Related Party Transactions

During the period from April 2, 2018 (date of merger) through June 30, 2018, one board member continued to have a 10% interest in the office building on Washington Boulevard in which CLARE|MATRIX rents space.

Note O—Recent Accounting Pronouncements

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for nonprofit organizations with fiscal years beginning after December 15, 2019, with early adoption permitted. CLARE|MATRIX is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

CLARE|MATRIX

Notes to Financial Statements—*Continued*

Note P—Subsequent Events

For many years, the Petersen Trust rented office space in its building located at 1020 Pico Boulevard to CLARE|MATRIX for \$1 per year. On November 15, 2018, the Petersen Trust sold the property, and, as a consequence, CLARE|MATRIX has had to adapt and reorganize its remaining space to temporarily meet its clinical needs.

On March 31, 2019, CLARE|MATRIX ceased operations at its Woodland Hills clinic. Staff and clients have been transferred to sites in Santa Monica, and Los Angeles.

On May 2, 2019, CLARE|MATRIX and the Department of Housing and Community Development (DHCD) entered into an agreement in principle. Upon execution of the agreement, the State of California would immediately forgive two EHAPCD loans in the amount of \$547,000 and \$436,820. Additionally, the State of California will forgive the remaining EHAPCD loan in the amount of \$1,000,000 after 4 years. The State of California will also allow CLARE|MATRIX to seek financing using the property at 844 Pico as collateral, subordinating their position.

Management evaluated all activities of CLARE|MATRIX through May 9, 2019, which is the date the financial statements were available to be issued, and concluded that no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.

CLARE|MATRIX
Supplemental Schedule
Proforma Statement of Activities
Year Ended June 30, 2018

	CLARE Foundation July 1, 2017 through April 1, 2018	CLARE Foundation April 2, 2018 through June 30, 2018	CLARE Foundation Year Ended June 30, 2018	MATRIX April 2, 2018 (Date of Merger) through June 30, 2018	CLARE MATRIX Year Ended June 30, 2018
Operating Activities					
Support and Revenues					
Government contracts	\$ 4,557,423	\$ 2,534,612	\$ 7,092,035	\$ 691,123	\$ 7,783,158
Contributions	711,493	89,593	801,086		801,086
Fundraising events, net	254,695		254,695		254,695
In-kind contributions	447,254	19,320	466,574		466,574
Service fees, net of discounts of \$149,658	451,057	47,803	498,860	92,671	591,531
Research income				126,862	126,862
Training income				141,312	141,312
Program revenue				10,998	10,998
Interest and dividends	7,359	783	8,142	2,620	10,762
Total Support and Revenues	6,429,281	2,692,111	9,121,392	1,065,586	10,186,978
Expenses					
Program services	6,116,714	2,714,576	8,831,290	1,024,445	9,855,735
Management and general	959,265	256,579	1,215,844	237,498	1,453,342
Fundraising	360,113	114,552	474,665	-	474,665
Total Expenses	7,436,092	3,085,707	10,521,799	1,261,943	11,783,742
Change in Net Assets From Operations	(1,006,811)	(393,596)	(1,400,407)	(196,357)	(1,596,764)
Nonoperating Activities					
Investment gains	1,677	2,825	4,502		4,502
Total Nonoperating Activities	1,677	2,825	4,502		4,502
Change in Net Assets	(1,005,134)	(390,771)	(1,395,905)	(196,357)	(1,592,262)
Net Assets at Beginning of Year			5,391,542		5,391,542
Net assets transferred from MATRIX at time of merger				1,188,766	1,188,766
Net Assets at End of Year			\$ 3,995,637	\$ 992,409	\$ 4,988,046

CLARE | MATRIX

Summary Schedule of Prior Audit Findings

Period from April 2, 2018 (Date of Merger) through June 30, 2018

There were no prior year audit findings.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
CLARE|MATRIX
Santa Monica, California

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of CLARE|MATRIX, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the period from April 2, 2018 (date of merger) through June 30, 2018, and the related notes to the financial statements and have issued our report thereon dated May 9, 2019 .

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CLARE|MATRIX's internal control over financial reporting 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 CLARE|MATRIX's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CLARE|MATRIX's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiencies numbered 2018-001 and 2018-002 described in the accompanying schedule of findings to be material weaknesses.

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. We consider the deficiency numbered 2018-003 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CLARE|MATRIX's financial statements are free of 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 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*.

CLARE|MATRIX's Response to Findings Identified by Auditor

CLARE|MATRIX's response to the findings identified in our audit are described in the accompanying schedule of findings. CLARE|MATRIX's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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 CLARE|MATRIX's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CLARE|MATRIX's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Los Angeles, California
May 9, 2019



CLARE|MATRIX
Schedule of Findings
Period from April 2, 2018 (Date of Merger) through June 30, 2018

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of CLARE|MATRIX were prepared in accordance with accounting principles generally accepted in the United States of America.
2. Three significant deficiencies disclosed during the audit of the financial statements are reported in this schedule. Two of the deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of CLARE|MATRIX were disclosed during the audit.

B. Findings—Financial Statements Audit

See schedule of findings following, detailing findings 2018-001, 2018-002, and 2018-003.

B. Findings—Financial Statements Audit

Finding 2018-001: Government Contract Billings

Significant Deficiency and Material Weakness over Financial Reporting

Criteria: A strong system of internal controls includes control activities that help to ensure the proper execution of transactions. This includes designing and implementing controls that ensure transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into the general ledger and beyond, including reimbursement requests for government contracts.

Condition: During the audit we performed confirmation procedures with the County of Los Angeles. We noted the Drug Medi-Cal (DMC) contract, which is included in departments 203 and 207, had income of \$1,506,470, while the confirmation reported income of \$949,696 - a difference of \$556,774. Upon investigation, CLARE|MATRIX noted the difference is due to declined billings which totaled \$886,349 during the period from April 2, 2018 (date of merger) through June 30, 2018. The denials date back to May 2018.

Effect or Potential Effect: Due to the condition described above, CLARE|MATRIX could materially misstate its financial statements by recording income that is denied by the County of Los Angeles.

Cause: CLARE|MATRIX's internal control lacks a quality control process to ensure services are properly billed to the County of Los Angeles.

Identification of a repeat finding: n/a

Recommendation: We recommend the creation of a quality control process to review billings for correctness prior to submission to the County of Los Angeles. We also recommend a follow up process be implemented for timely correction and resubmission of denied billings.

Views of responsible officials and planned corrective actions: CLARE|MATRIX agrees with the finding and will dedicate additional resources to denial workouts, and implement monthly denial analysis. Management will also work with Government agencies to obtain payment data that will assist management with its reconciliation. This payment data was requested by Management, but the Agency was unable to provide the necessary data to perform adequate reconciliations. The Agency is implementing a check matching system that will help Management review billings and work through denials.

B. Findings—Financial Statements Audit—Continued

Finding 2018-002: Accounts Receivable from Fee Income

Significant Deficiency and Material Weakness over Financial Reporting

Criteria: A strong system of internal controls includes control activities that help to ensure the accounts receivable subsidiary reports reconcile to the trial balance.

Condition: During the audit we noted receivables from private pay and insurance activities were not being reconciled to the trial balance.

Effect or Potential Effect: Due to the control deficiencies described above, CLARE | MATRIX's accounts receivable balances from fee income on the statement of financial position could be potentially materially misstated.

Cause: Internal controls established to properly assure that accounts receivable balances from fee income are properly recorded on the trial balance were not followed to their fullest extent.

Identification of a repeat finding: n/a

Recommendation: We recommend CLARE | MATRIX strengthen its procedures with regards to reconciling the accounts receivable balances from fee income to the trial balance, and implement a review procedure to ensure the reconciliation is performed in a timely manner.

Views of responsible officials and planned corrective actions: CLARE | MATRIX agrees with the finding and will implement monthly reconciliation process, tying activity together from AR, billings and collections. Specific resources will be tasked with identifying denial reasons, resubmitting billings and collecting cash for services rendered.

Finding 2018-003: Accounts Payable

Significant Deficiency over Financial Reporting

Criteria: A strong system of internal controls includes control activities that help to ensure the accounts payable balance reconciles to the trial balance.

Condition: During the audit we received an accounts payable listing that had a balance of \$604,178 at June 30, 2018. The balance on the trial balance was \$399,250. The difference was \$204,928. Upon investigation by the client it was determined that the accounts payable listing includes invoices received after the end of the audit period, June 30, 2018, but the invoice dates were prior to July 1, 2018. Therefore, they should be included in accounts payable on the trial balance at June 30, 2018.

CLARE|MATRIX

Schedule of Findings—Continued

Period from April 2, 2018 (Date of Merger) through June 30, 2018

B. Findings—Financial Statements Audit—Continued

Finding 2018-003: Accounts Payable—Continued

Effect or Potential Effect: Due to the control deficiencies described above, CLARE|MATRIX liabilities on the statement of financial position could be materially misstated.

Cause: Internal controls established to properly assure that liabilities are properly recorded on the trial balance were not followed to their fullest extent.

Identification of a repeat finding: n/a

Recommendation: We recommend CLARE|MATRIX strengthen its procedures with regards to reconciling the accounts payable balance to the trial balance and implementing a review procedure to ensure the reconciliation is performed in a timely manner.

Views of responsible officials and planned corrective actions: CLARE|MATRIX agrees with the finding and will implement monthly reconciliation process for Accounts Payable, identifying payables and proper accruals monthly.

CLARE | MATRIX

Corrective Action Plan

Period from April 2, 2018 (Date of Merger) through June 30, 2018

Findings—Financial Statements Audit

Finding 2018-001: Government Contract Billings

Corrective Action: Management will dedicate additional resources to denial workouts, and implement monthly denial analysis. Management will also work with Government agencies to obtain payment data that will assist management with its reconciliation. This payment data was requested by management, but the Agency was unable to provide the necessary data to perform adequate reconciliations. The Agency is implementing a check matching system that will help management review billings and work through denials.

Name of Contact Person: Eugene H. Kim

Proposed Completion Date: July 31, 2019

Finding 2018-002: Accounts Receivable from Fee Income

Corrective Action: Management will implement a monthly reconciliation process to tie together activity from accounts receivable, billings and collections. Specific resources will be tasked with identifying denial reasons, resubmitting billings and collecting cash for services rendered.

Name of Contact Person: Eugene H. Kim

Proposed Completion Date: July 31, 2019

Finding 2018-003: Accounts Payable

Corrective Action: Management will implement a monthly reconciliation process for accounts payable, identifying payables and proper accruals monthly.

Name of Contact Person: Eugene H. Kim

Proposed Completion Date: July 31, 2019