

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

**FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORT**

YEARS ENDED JUNE 30, 2025 AND 2024



CPAs | CONSULTANTS | WEALTH ADVISORS

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**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
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YEARS ENDED JUNE 30, 2025 AND 2024**

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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 financial statements of Mental Health Systems, Inc., dba: TURN Behavioral Health Services, (the Organization or MHS), (a nonprofit organization), which comprise the statements of financial position as of June 30, 2025 and 2024, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial positions of Mental Health Systems, Inc., dba: TURN Behavioral Health Services as of June 30, 2025 and 2024, 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 Mental Health Systems, Inc., dba: TURN Behavioral Health Services 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.

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. dba: TURN Behavioral Health Services' 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., dba: TURN Behavioral Health Services' 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., dba: TURN Behavioral Health Services' 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

Supplementary Information

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, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 GAAS. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2026, on our consideration of Mental Health Systems, Inc., dba: TURN Behavioral Health Services' 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., dba: TURN Behavioral Health Services' 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., dba: TURN Behavioral Health Services' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Irvine, California
January 12, 2026

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2025 AND 2024

| | <u>2025</u> | <u>2024</u> |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 2,107,171 | \$ 1,554,108 |
| Contracts and Grants Receivable, Net | 16,088,462 | 21,912,118 |
| Other Receivables | 854,862 | - |
| Prepaid Expenses | 2,580,631 | 1,047,705 |
| Deposits | 990,037 | 1,358,757 |
| Property and Equipment, Net | 1,167,433 | 1,253,708 |
| Operating Right of Use Asset | <u>9,978,247</u> | <u>11,758,094</u> |
| Total Assets | <u><u>\$ 33,766,843</u></u> | <u><u>\$ 38,884,490</u></u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts Payable | \$ 5,812,567 | \$ 10,270,455 |
| Accrued Liabilities | 10,160,247 | 7,513,910 |
| Deferred Revenue | 2,097,070 | 2,359,292 |
| Line of Credit | 9,968,385 | 12,428,755 |
| Notes Payable | 1,344,617 | 2,512,469 |
| Operating Right of Use Lease Liability | <u>10,333,199</u> | <u>11,991,207</u> |
| Total Liabilities | 39,716,085 | 47,076,088 |
| NET ASSETS | | |
| Without Donor Restrictions | <u>(5,949,242)</u> | <u>(8,191,598)</u> |
| Total Liabilities and Net Assets | <u><u>\$ 33,766,843</u></u> | <u><u>\$ 38,884,490</u></u> |

See accompanying Notes to Financial Statements.

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2025**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|------------------------------|
| REVENUES AND OTHER SUPPORT | | | |
| Mental Health Systems - Contract Revenue | \$ 97,996,306 | \$ - | \$ 97,996,306 |
| Mental Health Systems - Other Revenue | 2,298,100 | - | 2,298,100 |
| Mental Health Systems - Donations | 212,238 | - | 212,238 |
| Total Revenues and Other Support | <u>100,506,644</u> | <u>-</u> | <u>100,506,644</u> |
| EXPENSES | | | |
| Mental Health Systems - Program Services | 81,606,667 | - | 81,606,667 |
| Mental Health Systems - Management and General | 16,408,109 | - | 16,408,109 |
| Mental Health Systems - Fundraising | 249,512 | - | 249,512 |
| Total Expenses | <u>98,264,288</u> | <u>-</u> | <u>98,264,288</u> |
| CHANGE IN NET ASSETS | 2,242,356 | - | 2,242,356 |
| Net Assets - Beginning of Year | <u>(8,191,598)</u> | <u>-</u> | <u>(8,191,598)</u> |
| NET ASSETS - END OF YEAR | <u><u>\$ (5,949,242)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ (5,949,242)</u></u> |

See accompanying Notes to Financial Statements.

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|------------------------------|
| REVENUES AND OTHER SUPPORT | | | |
| Mental Health Systems - Contract Revenue | \$ 101,367,345 | \$ - | \$ 101,367,345 |
| Mental Health Systems - Other Revenue | 819,515 | - | 819,515 |
| Mental Health Systems - Donations | 52,166 | - | 52,166 |
| Total Revenues and Other Support | <u>102,239,026</u> | <u>-</u> | <u>102,239,026</u> |
| EXPENSES | | | |
| Mental Health Systems - Program Services | 89,374,247 | - | 89,374,247 |
| Mental Health Systems - Management and General | 16,446,515 | - | 16,446,515 |
| Mental Health Systems - Fundraising | 79,397 | - | 79,397 |
| Total Expenses | <u>105,900,159</u> | <u>-</u> | <u>105,900,159</u> |
| OTHER CHANGES | | | |
| Contract Settlements | <u>(60,566)</u> | <u>-</u> | <u>(60,566)</u> |
| CHANGE IN NET ASSETS | (3,721,699) | - | (3,721,699) |
| Net Assets - Beginning of Year | <u>(4,469,899)</u> | <u>-</u> | <u>(4,469,899)</u> |
| NET ASSETS - END OF YEAR | <u><u>\$ (8,191,598)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ (8,191,598)</u></u> |

See accompanying Notes to Financial Statements.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2025

| | Program Services | Management and General | Fundraising | Total |
|--|----------------------|---------------------------|-------------------|----------------------|
| Salaries | \$ 39,591,239 | \$ 5,550,007 | \$ 102,113 | \$ 45,243,359 |
| Employee Benefits | 4,974,414 | 575,899 | 12,163 | 5,562,476 |
| Payroll Taxes | 2,943,255 | 375,144 | 7,392 | 3,325,791 |
| Total Salary Related Expenses | 47,508,908 | 6,501,050 | 121,668 | 54,131,626 |
| Program Supplies | 8,261,436 | 9,088 | 102,745 | 8,373,269 |
| Consulting Fees | 6,809,570 | 690,368 | 13,058 | 7,512,996 |
| Occupancy | 6,620,166 | 853,977 | 132 | 7,474,275 |
| Purchased Services | 5,161,027 | - | - | 5,161,027 |
| Insurance | 1,079,144 | 1,522,248 | 2,034 | 2,603,426 |
| Utilities and Telephone | 1,932,457 | 201,469 | 335 | 2,134,261 |
| Interest and Bank Charges | 23,216 | 1,951,897 | - | 1,975,113 |
| Professional Fees and Outside Services | 417,847 | 1,543,476 | 7,649 | 1,968,972 |
| Computer Expense | 335,265 | 297,789 | 1,027 | 634,081 |
| Taxes and Licenses | 656,712 | 155,759 | 237 | 812,708 |
| Office Supplies | 588,604 | 23,120 | 70 | 611,794 |
| Travel | 616,423 | 90,972 | 10 | 707,405 |
| Equipment Purchase | 234,003 | 20,424 | 188 | 254,615 |
| Miscellaneous and Unallowable Expense | 84,683 | 2,342,336 | - | 2,427,019 |
| Equipment Rental | 533,320 | 74,912 | - | 608,232 |
| Staff Development | 190,147 | 21,901 | 359 | 212,407 |
| Laboratory Fees | 269,426 | - | - | 269,426 |
| Equipment and Maintenance | 91,135 | 3,497 | - | 94,632 |
| Printing and Postage | 63,197 | 32,263 | - | 95,460 |
| Dues and Subscriptions | 11,703 | 49,444 | - | 61,147 |
| Expenses before Depreciation and Amortization | 81,488,389 | 16,385,990 | 249,512 | 98,123,891 |
| Depreciation and Amortization | 118,278 | 22,119 | - | 140,397 |
| Total Expenses | <u>\$ 81,606,667</u> | <u>\$ 16,408,109</u> | <u>\$ 249,512</u> | <u>\$ 98,264,288</u> |

See accompanying Notes to Financial Statements.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2024

| | Program Services | Management and General | Fundraising | Total |
|--|----------------------|---------------------------|------------------|-----------------------|
| Salaries | \$ 42,360,275 | \$ 5,154,124 | \$ - | \$ 47,514,399 |
| Employee Benefits | 4,314,099 | 682,489 | - | 4,996,588 |
| Payroll Taxes | 3,338,225 | 355,054 | - | 3,693,279 |
| Total Salary Related Expenses | 50,012,599 | 6,191,667 | - | 56,204,266 |
| Program Supplies | 11,525,523 | 43,313 | 11,924 | 11,580,760 |
| Consulting Fees | 7,746,567 | 671,850 | - | 8,418,417 |
| Occupancy | 7,133,231 | 726,871 | 31,731 | 7,891,833 |
| Client Housing | 4,148,189 | - | - | 4,148,189 |
| Insurance | 1,044,970 | 1,633,584 | - | 2,678,554 |
| Utilities and Telephone | 2,289,387 | 271,823 | 1,961 | 2,563,171 |
| Interest and Bank Charges | 24,055 | 2,392,851 | - | 2,416,906 |
| Professional Fees and Outside Services | 928,530 | 1,289,867 | 21,671 | 2,240,068 |
| Computer Expense | 273,530 | 1,480,099 | 8,770 | 1,762,399 |
| Taxes and Licenses | 775,190 | 88,812 | - | 864,002 |
| Office Supplies | 735,762 | 23,457 | 1,373 | 760,592 |
| Travel | 687,414 | 57,781 | 1,169 | 746,364 |
| Equipment Purchase | 484,829 | 41,441 | 151 | 526,421 |
| Miscellaneous and Unallowable Expense | 270,264 | 1,259,717 | 205 | 1,530,186 |
| Equipment Rental | 456,973 | 24,774 | - | 481,747 |
| Staff Development | 256,761 | 23,608 | 335 | 280,704 |
| Laboratory Fees | 242,286 | - | - | 242,286 |
| Equipment and Maintenance | 173,357 | 5,185 | - | 178,542 |
| Printing and Postage | 122,189 | 26,819 | 107 | 149,115 |
| Dues and Subscriptions | 18,583 | 74,562 | - | 93,145 |
| Expenses Before Depreciation | | | | |
| Depreciation and | 89,350,189 | 16,328,081 | 79,397 | 105,757,667 |
| Depreciation and Amortization | 24,058 | 118,434 | - | 142,492 |
| Total Expenses | <u>\$ 89,374,247</u> | <u>\$ 16,446,515</u> | <u>\$ 79,397</u> | <u>\$ 105,900,159</u> |

See accompanying Notes to Financial Statements.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2025 AND 2024

| | <u>2025</u> | <u>2024</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 2,242,356 | \$ (3,721,699) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 140,397 | 142,492 |
| Non-Cash Lease Expense | 121,839 | 48,294 |
| Bad Debt Expense | 928,466 | 234,353 |
| (Increase) Decrease in Assets: | | |
| Contracts and Grants Receivable, Net | 4,895,190 | 195,072 |
| Other Receivables | (854,862) | 44,810 |
| Prepaid Expenses | (1,532,926) | (149,949) |
| Deposits | 368,720 | (85,377) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | (4,457,888) | 1,966,372 |
| Accrued Liabilities | 2,646,337 | (807,223) |
| Deferred Revenue | (262,222) | 2,241,229 |
| Net Cash Provided by Operating Activities | <u>4,235,407</u> | <u>108,374</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Property and Equipment | (54,122) | (40,584) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings on Line of Credit | 99,719,712 | 100,649,945 |
| Borrowings on Notes Payable | - | 1,320,000 |
| Payments Made on Line of Credit | (102,180,082) | (101,772,683) |
| Payments Made on Notes Payable | (1,167,852) | (540,025) |
| Net Cash Used by Financing Activities | <u>(3,628,222)</u> | <u>(342,763)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 553,063 | (274,973) |
| Cash and Cash Equivalents - Beginning of Year | <u>1,554,108</u> | <u>1,829,081</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 2,107,171</u> | <u>\$ 1,554,108</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash Paid During the Year: | | |
| Interest | <u>\$ 1,548,287</u> | <u>\$ 1,762,737</u> |

See accompanying Notes to Financial Statements.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

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

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

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 ORGANIZATION (CONTINUED)

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

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 ORGANIZATION (CONTINUED)

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 96.17 % and 97.95% of the Organization's support for the years ended June 30, 2025 and 2024, respectively, came from government contracts.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

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, 2025 and 2024.

Approximately 63% and 52% of the Organization's revenues were provided by the County of San Diego for the years ended June 30, 2025 and 2024.

Contracts and Grants Receivable

Contracts receivable consists of balances due for services provided pursuant to written and verbal contracts with various public and private agencies. Generally accepted accounting principles in the United States of America require that an allowance for doubtful accounts be established for accounts receivable. It is the Organization's policy to evaluate the collectability of receivables on a regular and ongoing basis, if deemed necessary, an adjustment to the allowance for bad debt is recorded. Accordingly, contracts and accounts receivable are shown net of an allowance for doubtful accounts.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Pledges Receivable

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

Donated Services and Materials

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and various assignments. The Organization receives more than 5,000 volunteer hours per year.

Property and Equipment

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

Advertising

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

Deferred Revenue

Deferred revenue represents funds received, but not expensed. 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from California franchise taxes under Section 23701(d) of the State Revenue and Taxation Code.

The Organization files IRS Form 990 and State Forms 199 and RRF-1. Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management of the Organization does not believe the financial statements include any uncertain tax positions. With few exceptions, The Organization is not subject to U.S. federal and state examinations by tax authorities for the years before 2025 and 2024, respectively.

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 on various allocation methods. 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.

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 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.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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.

We report contributions restricted by donors 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. 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.

Revenue and Revenue Recognition

Contract revenue – Contract revenue is derived from cost-reimbursable and fee-for-service federal, state, and local contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures in compliance with specific contract provisions. The Organization's contracts with patients include Medi-Cal, which reimburse the Organization based on established rates. Amounts received are recognized as revenue when we have incurred expenditures or rendered services in compliance with specific contract provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position. MHS received a \$1,100,000 advance from the State of California in February 2024 for a program set to begin on July 1, 2025. This amount has been recorded in deferred revenue for years ended June 30, 2025 and 2024.

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition (Continued)

The Organization's performance obligations are determined based on the nature of the services provided. Performance obligations primarily consist of providing mental health, substance abuse, and housing services to clients. Generally, performance obligations satisfied over time relate to clients receiving services at outpatient centers. Revenue for performance obligations satisfied at a point in time is generally recognized when the service is rendered.

The transaction price is determined based on the reimbursement or fee-for-service rates agreed upon with Medi-Cal, adjusted for contractual allowances and variable considerations such as retroactive rate adjustments, eligibility determinations, and potential denials. The Organization applies the variable consideration constraint and includes only amounts for which it is probable that a significant reversal will not occur.

Subsequent Events

Management has evaluated subsequent events through January 12, 2026, the date the financial statements were available to be issued.

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:

| | 2025 | 2024 |
|---------------------------------|----------------------|----------------------|
| Cash and Cash Equivalents | \$ 2,107,171 | \$ 1,554,108 |
| Contracts and Grants Receivable | 16,088,462 | 21,912,118 |
| Total | <u>\$ 18,195,633</u> | <u>\$ 23,466,226</u> |

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, 2025 and 2024, 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:

| | 2025 | 2024 |
|---------------------------------------|----------------------|----------------------|
| Contracts Receivable | \$ 16,396,457 | \$ 22,113,478 |
| Less: Allowance for Doubtful Accounts | (307,995) | (201,360) |
| Total Due in One Year or Less | <u>\$ 16,088,462</u> | <u>\$ 21,912,118</u> |

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 5 PROPERTY AND EQUIPMENT

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

| | 2025 | 2024 |
|------------------------------------|---------------------|---------------------|
| Land | \$ 555,260 | \$ 555,260 |
| Building and Facilities | 1,014,719 | 994,864 |
| Vehicles | 722,015 | 722,015 |
| Furniture, Fixtures, and Equipment | 493,754 | 500,146 |
| Leasehold Improvements | 707,948 | 683,935 |
| Software | 3,237,291 | 3,217,503 |
| Total Property and Equipment | 6,730,987 | 6,673,723 |
| Less: Accumulated Depreciation | (5,563,554) | (5,420,015) |
| Property and Equipment, Net | <u>\$ 1,167,433</u> | <u>\$ 1,253,708</u> |

Depreciation expense for the fiscal years ended June 30, 2025 and 2024 was \$140,397 and \$142,492, respectively.

NOTE 6 ACCRUED LIABILITIES

| | 2025 | 2024 |
|---------------------------|----------------------|---------------------|
| Accrued Payroll | \$ 2,103,941 | \$ 2,162,339 |
| Accrued Benefits | 3,517,102 | 3,127,398 |
| Other Liabilities | 4,539,204 | 2,224,173 |
| Total Accrued Liabilities | <u>\$ 10,160,247</u> | <u>\$ 7,513,910</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 \$17,000,000 in October 2022. The LOC has a variable interest rate of prime rate plus 1.50% and matures in January 2027. As of June 30, 2025 and 2024, the line of credit balances were \$9,968,385 and \$12,428,755, respectively, with interest rates of 9.00% and 10.00%, respectively. The LOC contains certain financial covenants and ratio requirements and as of June 30, 2025, the Organization was not compliant with financial covenants and ratio requirements. MHS obtained a waiver for the noncompliant covenants.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 8 NOTES PAYABLE

Notes payable consist of the following as of June 30:

| | 2025 | 2024 |
|---------------------|---------------------|---------------------|
| Clementine | \$ 477,617 | \$ 495,469 |
| CNH Term Loan | 867,000 | 2,017,000 |
| Total Notes Payable | <u>\$ 1,344,617</u> | <u>\$ 2,512,469</u> |

Aggregate future principal payments are as follows:

| | 2025 | 2024 |
|--------------------------|---------------------|---------------------|
| Due in One Year | \$ 885,719 | \$ 2,034,852 |
| Due in Two to Five Years | 108,140 | 103,133 |
| Thereafter | 350,758 | 374,484 |
| Total | <u>\$ 1,344,617</u> | <u>\$ 2,512,469</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, 2025 and 2024 was \$477,617 and \$495,469, respectively.

In July, 2023, the Organization entered into a note payable with CNH Finance Fund for \$2,500,000. The note requires weekly principal payment of \$25,000 until note is paid in full. As of June 30, 2025 and 2024, the note had interest rates of 9.50% and 10.50%, respectively, with balances of \$867,000 and \$2,017,000.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

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. There was no amount due for the year ended June 30, 2025. The amount due for the year ended June 30, 2024 was \$60,566, 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 Organization to pay real estate taxes, insurance, and common area maintenance.

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 10 LEASES (CONTINUED)

The following tables provide quantitative information concerning the Organization's leases for the years ended June 30, 2025 and 2024:

| | <u>2025</u> | <u>2024</u> |
|--|---------------------|---------------------|
| Operating Lease Cost | <u>\$ 6,087,257</u> | <u>\$ 6,203,750</u> |
| Other Information: | | |
| Cash Paid for Amounts Included in the Measurement of Lease Liabilities: | | |
| Operating Cash Flows from Operating Leases | \$ 5,965,417 | \$ 6,148,980 |
| Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities | \$ 3,726,055 | \$ 2,802,872 |
| Weighted-Average Remaining Lease Term | | |
| - Operating Leases | 2.99 years | 2.96 years |
| Weighted-Average Discount Rate - Operating Leases | 4.79% | 5.00% |

A maturity analysis of annual undiscounted cash flows for operating lease liabilities is as follows:

| Year Ending June 30, | Total |
|------------------------------|----------------------|
| 2026 | \$ 4,442,997 |
| 2027 | 3,032,074 |
| 2028 | 2,161,568 |
| 2029 | 1,106,805 |
| 2030 | 327,830 |
| Thereafter | - |
| Undiscounted Cash Flows | 11,071,274 |
| Less: Present Value Discount | (738,075) |
| Total | <u>\$ 10,333,199</u> |

NOTE 12 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 FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 13 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, 2025 and 2024, total expense was \$1,088,923 and \$1,066,701, 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 14 FINANCIAL POSITION

As of June 30, 2025, the Organization's accumulated net asset deficit was (\$5,949,242).

Mental Health Systems, Inc. has been awarded government contracts of over \$120M for the fiscal year ending June 30, 2026. In addition, 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. Management plans to 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, 2025, 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 12, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 Organization'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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Irvine, California
January 12, 2026



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
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

Opinion on Each Major Federal Program

We have audited Mental Health Systems, Inc., dba: TURN Behavioral Health Services', (the Organization), compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Organization's major federal programs for the year ended June 30, 2025. Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Organization complied, in all material respects, with the 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, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Organization and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Organization's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Organization's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The 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.



CliftonLarsonAllen LLP
Irvine, California
January 12, 2026

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2025

| Federal Grantor/Pass through Grantor/ Program or Cluster Title | Federal Assistance Listing Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|--|--|---------------------------------------|-------------------------|
| U.S. Department of Education | | | | |
| Pass-Through from California Department of Rehabilitation | | | | |
| Rehabilitation Services Vocational | | | | |
| Rehabilitation Grants to States | 84.126A | 32456 | \$ - | \$ 929,962 |
| Total U.S. Department of Education | | | - | 929,962 |
| U.S. Department of Health and Human Services | | | | |
| Pass-Through from County of San Diego | | | | |
| Block Grants for Prevention and | | | | |
| Treatment of Substance Abuse | 93.959 | 565055 | - | 41,731 |
| | 93.959 | 565056 | - | 25,046 |
| | 93.959 | 567585 | - | 440,676 |
| | 93.959 | 553434 | - | 141,026 |
| Total U.S. Department of Health and Human Services | | | - | 648,479 |
| U.S. Department of Housing and Urban Development | | | | |
| Continuum of Care Program | 14.267 | | - | 49,904 |
| | 14.267 | | - | 83,213 |
| | 14.267 | | - | 325,369 |
| | 14.267 | | - | 20,927 |
| | 14.267 | | - | 24,286 |
| | 14.267 | | - | 21,131 |
| | 14.267 | | - | 56,131 |
| | 14.267 | | - | 127,163 |
| | 14.267 | | - | 35,465 |
| | | | - | 743,589 |
| Pass-Through from San Diego Housing Commission | | | | |
| Continuum of Care Program | 14.267 | SIHI-25-06 | - | 693,956 |
| Pass-Through from San Diego Housing Commission | | | | |
| Moving to Work Demonstration Program | 14.881 | | - | 454,234 |
| | 14.881 | | - | 635,903 |
| | 14.881 | | - | 552,566 |
| | 14.881 | | - | 464,258 |
| | 14.881 | | - | 731,671 |
| | 14.881 | | - | 521,699 |
| | | | - | 3,360,331 |
| Total U.S. Department of Housing and Urban Development | | | - | 4,797,876 |
| Total Expenditures of Federal Awards | | | \$ - | \$ 6,376,317 |

MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2025

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.

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2025**

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 | _____ <input checked="" type="checkbox"/> no |
| • Significant deficiency(ies) identified? | _____ yes | _____ <input checked="" type="checkbox"/> none reported |
| 3. Noncompliance material to financial statements noted? | _____ yes | _____ <input checked="" type="checkbox"/> no |

Federal Awards

- | | | |
|---|------------|---|
| 1. Internal control over major federal programs: | | |
| • Material weakness(es) identified? | _____ yes | _____ <input checked="" type="checkbox"/> no |
| • Significant deficiency(ies) identified? | _____ yes | _____ <input checked="" type="checkbox"/> 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 | _____ <input checked="" type="checkbox"/> no |

Identification of Major Federal Programs

Assistance Listing Numbers

14.881

84.126A

Name of Federal Program or Cluster

Moving to Work Demonstration Program

Rehabilitation Services Vocational Rehabilitation Grants to States

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

_____ ☒ yes _____ no

**MENTAL HEALTH SYSTEMS, INC.
DBA: TURN BEHAVIORAL HEALTH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2025**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a)



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