Transitions-Mental Health Association

Audited Financial Statements

Year Ended June 30, 2023

GLENN BURDETTE

Transitions-Mental Health Association
Consolidated Financial Statements
Year Ended June 30, 2023

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Independent Auditors' Report

To the Board of Directors of
Transitions-Mental Health Association

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Transitions-Mental Health Association (a nonprofit organization) and its subsidiary, which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Transitions-Mental Health Association and subsidiary as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Transitions-Mental Health Association 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 opinions.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2023, Transitions-Mental Health Association adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

GLENNBURDETTE.COM
p (805) 544 - 1441
f (805) 544 - 4351

SAN LUIS OBISPO
1150 Palm Street
San Luis Obispo, CA 93401

PASO ROBLES
102 South Vine Street
Paso Robles, CA 93446

SANTA MARIA
2222 South Broadway, Ste. A
Santa Maria, CA 93454

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 Transitions-Mental Health Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards 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 Transitions-Mental Health Association's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Transitions-Mental Health Association's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2024 on our consideration of Transitions-Mental Health Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Transitions-Mental Health Association's internal control over financial reporting or our compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transitions-Mental Health Association's internal control over financial reporting and compliance.

GLENN BURDETTE ATTEST CORPORATION

Glenn Burdette Attest Corporation
San Luis Obispo, California

February 26, 2024

Transitions-Mental Health Association

Consolidated Statement of Financial Position

June 30, 2023

Assets		
Current assets:		
Cash and cash equivalents	$	2,054,811
Grants receivable, net of allowance		2,916,570
Accounts receivable		21,228
Inventories		98,270
Prepaid expenses		244,475
Deposits		210,145
Total current assets		5,545,499
Other assets:		
Operating lease right-of-use assets		685,134
Property and equipment, net of accumulated depreciation and amortization		12,216,934
Total assets	$	18,447,567
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	265,495
Accrued payroll and related expenses		462,261
Accrued vacation		402,420
Other accrued liabilities		113,940
Deferred revenue		17,749
Operating lease liabilities, current portion		265,888
Notes payable, current portion, net of unamortized debt issuance costs		1,127,801
Total current liabilities		2,655,554
Long-term liabilities:		
Client deposits		131,354
Operating lease liabilities, net of current portion		425,262
Notes payable, net of current portion and unamortized debt issuance costs		4,169,626
Total long-term liabilities		4,726,242
Total liabilities		7,381,796
Net assets:		
Without donor restrictions		6,853,966
With donor restrictions		4,211,805
Total net assets		11,065,771
Total liabilities and net assets	$	18,447,567

The accompanying notes are an integral part of these financial statements.

Transitions-Mental Health Association
Consolidated Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restricted	Total
Revenues and support:			
Federal grants	$ 1,858,532	$ 145,094	$ 2,003,626
State and local grants	650,278	267,008	917,286
Contract income	12,286,131		12,286,131
Client rents	1,749,617		1,749,617
Contributions	388,746	174,096	562,842
Interest income	4,552		4,552
Other revenue	130,760		130,760
Nursery revenue, net of cost of goods sold	263,904		263,904
Loss on disposal of property	(3,006)		(3,006)
Total revenues and support	17,329,514	586,198	17,915,712
Net assets released from restrictions	202,681	(202,681)	-
Expenses:			
Program services	14,826,074		14,826,074
Supporting services:			
General and administrative	2,199,075		2,199,075
Fundraising	172,029		172,029
Total expenses	17,197,178		17,197,178
Change in net assets	335,017	383,517	718,534
Net assets - beginning of year	6,742,541	3,604,696	10,347,237
Prior year restatement	(223,592)	223,592	-
Net assets - beginning of the year, restated	6,518,949	3,828,288	10,347,237
Net assets - end of year	$ 6,853,966	$ 4,211,805	$ 11,065,771

The accompanying notes are an integral part of these financial statements.

Transitions-Mental Health Association
Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services							
	Housing Services	Community Wellness and Education	Mental Health Treatment Services	Vocational Services	Total Program Services	General and Administrative	Fundraising	Total
Cost of goods sold	$ -	$ -	$ -	$ 263,302	$ 263,302	$ -	$ -	$ 263,302
Salaries, wages, and related expenses	1,513,808	2,235,588	4,815,454	1,257,736	9,822,586	1,346,903	106,491	11,275,980
Occupancy fee	79,070	27,506	68,982	8,485	184,043	50,807	467	235,317
Lease expense	1,593,838	41,665	233,355	16,330	1,885,188	6,610		1,891,798
Professional fees	28,408	163,292	203,674	12,426	407,800	285,686		693,486
Client expenses	30,985	14,838	81,642	326	127,791			127,791
Taxes and licenses	42,519	8,097	7,428	937	58,981	2,465		61,446
Groceries	45,662	24,172	18,556	8	88,398			88,398
Fundraising					-		23,239	23,239
Staff development and training	3,029	47,016	52,084	30,328	132,457	21,254	75	153,786
Credit and bank charges				8,370	8,370	6,003	2,319	16,692
Retirement plan advisory fees					-	10,150		10,150
Depreciation	162,333	56,471	141,622	17,420	377,846	104,309	319	482,474
Dues and subscriptions	3,855	68,142	20,518	22,028	114,543	147,293	4,145	265,981
Furniture and equipment	38,671	9,865	31,674	3,781	83,991	3,852		87,843
Technology	15,303	41,793	47,804	20,984	125,884	30,969		156,853
Insurance	26,662	17,337	47,295	12,053	103,347	24,437	1,153	128,937
Interest	77,982	27,128	68,033	8,368	181,511	50,108	153	231,772
Employee meals	1,422	1,776	6,424	1,313	10,935	13,364		24,299
Office supplies and program expenses	32,806	50,566	62,440	8,646	154,458	4,663	4,733	163,854
Other	1,590	3,460	9,528	1,619	16,197	22,991	11,676	50,864
Marketing and public relations	1,216	6,409	4,247	2,516	14,388	11,693	4,865	30,946
Printed materials and postage	7,008	2,206	14,704	247	24,165	6,165	11,626	41,956
Repairs and maintenance	118,479	17,802	57,861	11,570	205,712	157		205,869
Telecommunication	40,400	41,712	75,953	22,614	180,679	9,695	442	190,816
Transportation	21,503	12,946	105,545	34,293	174,287	13,325	326	187,938
Utilities	212,661	18,258	100,068	11,530	342,517	26,176		368,693
Total expenses by function	4,099,210	2,938,045	6,274,891	1,777,230	15,089,376	2,199,075	172,029	17,460,480
Less expenses included with revenues on the statement of activities:								
Cost of goods sold				(263,302)	(263,302)			(263,302)
Total expenses included in the expense section on the statement of activities	$ 4,099,210	$ 2,938,045	$ 6,274,891	$ 1,513,928	$ 14,826,074	$ 2,199,075	$ 172,029	$ 17,197,178

The accompanying notes are an integral part of these financial statements.

Transitions-Mental Health Association
Consolidated Statement of Cash Flows
Year Ended June 30, 2023

Cash flows from operating activities:		
Change in net assets		$ 718,534
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Depreciation and amortization expense	$ 482,474	
Operating lease expense	236,338	
Amortization of debt issuance costs	1,553	
Loss on disposal of property	3,006	
Changes in operating assets and liabilities:		
Grants receivable	(714,896)	
Promises to give, net of allowance	500	
Accounts receivable	5,538	
Inventories	(2,638)	
Prepaid expenses	15,091	
Deposits	(63,539)	
Accounts payable	174,952	
Accrued payroll and related expenses	81,214	
Accrued vacation	42,623	
Other accrued liabilities	(9,274)	
Deferred revenue	(103,265)	
Client deposits	125,324	
Operating lease liabilities	(230,322)	
Total adjustments		44,679
Net cash provided by operating activities		763,213
Cash flows from investing activities:		
Purchase of property and equipment	(386,029)	
Net cash used in investing activities		(386,029)
Cash flows from financing activities:		
Repayments on notes payable	(370,515)	
Net cash used in financing activities		(370,515)
Net increase in cash and cash equivalents		6,669
Cash and cash equivalents - beginning of year		2,048,142
Cash and cash equivalents - end of year		$ 2,054,811

Supplemental disclosures of cash flow information:	
Cash paid for interest during the year	$ 231,772
Non-cash transactions:	
Issuance of notes payable in exchange for property and equipment	$ 370,000
ROU assets obtained in exchange for lease liabilities - upon adoption	$ 493,140
ROU assets obtained in exchange for new lease liabilities	$ 400,859

The accompanying notes are an integral part of these financial statements.

Transitions-Mental Health Association
Notes to Financial Statements
June 30, 2023

Note 1: Organization

General

The Transitions-Mental Health Association (Organization) was organized in 1979 as a California Non-Profit Public Benefit Corporation. The Organization is dedicated to providing quality services to youth and adults in San Luis Obispo and Santa Barbara counties. Its mission is to eliminate stigma and promote recovery and wellness for people experiencing mental illness. The Organization strives to help them attain their highest level of personal, educational and social functioning.

In April 2011, the Organization formed the SLO Transitions, LLC (SLOT, LLC), a single member limited liability company in which the Organization is the sole member and has a fiscal year end of December 31. SLOT, LLC was formed for the purpose of holding and operating housing projects for the Organization's clients that have Mental Health Services Act funding. SLOT, LLC was established to remodel and operate the Nipomo Street Studios and entered into an April 2014 property management agreement with the Organization to manage the property. As a result of the construction funding, the SLOT, LLC has a forgivable loan balance of $1,898,168 that is included in net assets with donor restrictions.

The Organization operates 50 programs at over 91 locations that reach 5,500 people and 2,000 families in San Luis Obispo and North Santa Barbara counties. The emphasis of the Organization's many services is to teach vital independent living skills and build a framework for community re-entry through personal empowerment and hands-on experience. The Organization is dedicated to providing housing, employment, case management and life-skills support to teens and adults with mental illness, and support, resources and education for their loved ones.

Funding is provided through contracts with San Luis Obispo and Santa Barbara counties, as well as group home services, donations, and the sale of inventories from the Organization's farm and plant nursery.

Description of Major Programs

Housing Services: The Organization offers housing services to over 300 individuals each year, at every level of need. We assist our clients in creating and sustaining a home they can count on. The Organization both owns and master-leases supportive housing properties throughout San Luis Obispo and North Santa Barbara Counties.

Community Wellness and Education: The community wellness and education program provides compassionate, informed assistance for families, friends and loved ones of persons they know or suspect have a mental illness. The program offers direct support, information, and education with the goal of providing recovery and hope. In addition, a wide variety of trainings is provided throughout the year to health professionals and community members, often at no charge.

Note 1: Organization (Continued)

Mental Health Treatment Services: Promoting the power of support from people with lived experience with mental illness, the Organization runs drop-in centers and peer services that provide multiple opportunities for peer gatherings, one-on-one mentoring, and personal growth. The Organization also provides 24/7 clinical services where and when they are needed. Services include psychiatric care, housing assistance, substance abuse recovery, health, financial, education, employment and social support.

Vocational Services: The Organization provides on-going job support and employment necessary for helping individuals with mental illnesses to choose, acquire and keep competitive employment. Work programs include three Social Enterprises that help individuals living with a mental illness find and maintain employment while providing the support necessary to ensure success.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Organization and its wholly owned subsidiary, SLOT, LLC. All significant intercompany balances and transactions have been eliminated in consolidation. There were no intervening events due to differing financial reporting periods that materially affected financial position or the change in net assets requiring disclosure at June 30, 2023.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers demand deposits with financial institutions, money market funds and certificates of deposits with an original maturity date of three months or less to be cash equivalents.

Accounts and Grants Receivable

The Organization provides an allowance for uncollectible accounts and grants receivables based upon prior experience and management's assessment of the collectability of specific existing accounts. Based on a review of accounts and grants receivables, management has recorded an allowance for doubtful accounts $3,407 at June 30, 2023.

Inventories

Inventories are stated at the lower of cost or net realizable value on a first in-first out basis.

Note 2: Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment is stated at cost for purchased assets and at fair market value at time of donation for donated assets. Depreciation is computed on the straight-line method with a half year convention over the estimated useful lives of the respective assets, which range from three to thirty years. The Organization capitalizes items with a cost or donated value over $5,000.

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. The governing board may from time to time designate a portion of this asset class for specific projects or activities. There were no board restricted net assets at June 30, 2023.

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.

The Organization reports 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, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

A portion of the Organization's revenue is derived from cost-reimbursable or rate-based county, federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. For cost-reimbursed grants and contracts, amounts received are recognized as revenue when expenditures have been incurred in compliance with specific contract or grant provisions. For rate-based

Note 2: Summary of Significant Accounting Policies (Continued)

contracts, a rate is set by the government agency and paid to the Organization based upon the services provided to the client. Revenue is recognized when the services are provided on a monthly basis.

Nursery sales are recognized at the time of purchase. Special event revenue can be comprised of an exchange element based upon the direct benefit donors receive and a contribution element for the difference. The Organization recognizes special event revenue equal to the fair value of direct benefits to donors when the special event takes place and recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place. All goods and services are transferred at a point in time.

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, Leases. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842,* Leases; ASU 2018-11, Leases (*Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. The most significant change in the new leasing guidance is the requirement to recognize right-to-use (ROU) assets and related lease liabilities on the balance sheet.

The Organization has adopted this new standard with a date of initial application of July 1, 2022. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to carry forward the historical lease classification. In addition, the Organization elected the practical expedient to use hindsight in determining the lease term for existing leases.

The adoption had a material impact on the Organization's statement of financial position at July 1, 2022. It required the Organization to restate amounts as of July 1, 2022, resulting in an increase in operating lease ROU assets and operating lease liabilities of $493,140.

Leases

The Organization leases certain office space and residential housing for use in its programs. The determination of whether an arrangement is a lease is made at the lease's inception. Under Topic 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Note 2: Summary of Significant Accounting Policies (Continued)

Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. The Organization has elected the practical expedient for short-term leases with terms of 12 months or less. For short-term leases, the Organization recognizes the lease payments in the income statement on a straight-line basis over the term of the lease.

For leases with a lease term greater than one year, the Organization recognizes an asset for its right to use the underlying leased item, and a lease liability for the corresponding lease obligation. Operating leases with a duration greater than one year are included in right-of-use assets, current portion of operating lease liabilities, and operating lease liabilities, net of current portion, on the Organization's statement of financial position at June 30, 2023. Right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, in accordance with its elected policy, the Organization uses the risk-free discount rate.

The Organization considers the lease term to be the noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the Organization is reasonably certain to exercise the option, (2) terminate the lease if the Organization is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor.

Right-of-use assets also include any lease payments made and exclude lease incentives received or receivable. Lease expense is recognized on a straight-line basis over the expected lease term. Variable lease expenses are recorded when incurred. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. Annually, the Organization files a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. Management has determined the Organization is subject to unrelated business income tax, and has filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Contributions of Nonfinancial Assets

The Organization receives donations of time and services from members of the community and volunteers which are recorded in the financial statements if the services received (a) create or enhance long-lived assets or (b) require

Note 2: Summary of Significant Accounting Policies (Continued)

specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Additionally, the Organization occasionally receives donations of nonfinancial assets. Donated fixed assets, materials, and supplies are utilized directly by the Organization in its programs and are valued at their appraised values at the time of the bequest. Donated professional services are utilized in the Organization's management and administration and are valued at the standard hourly rates charged for those services. During the year ended June 30, 2023, the Organization did not receive any contributed nonfinancial assets.

Advertising Costs

Advertising costs consist of non-direct response costs and are expensed as incurred. Advertising costs for the year ended June 30, 2023 totaled $30,946.

Litigation

From time to time, in the normal course of operations, the Organization may become involved in litigation for which the agency may, or may not have, additional insurance coverage, depending upon the individual circumstances of the claim.

Functional Expense Allocations

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributable to both program services and supporting activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon square footage of the facility and salary allocations depending on the specific expense.

Concentrations

Major Funding:
The Organization received grant funding from San Luis Obispo and Santa Barbara Counties, which accounted for approximately 68% of total revenues during the year ended June 30, 2023.

At June 30, 2023, two grantors that made up 89% of the grants receivable balance.

Credit Risk:
The Organization maintains cash balances with three financial institutions located in California. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At June 30, 2023, the

Note 2: Summary of Significant Accounting Policies (Continued)

Organization had cash balances in excess of the FDIC limit of $1,134,474. To date the Organization has not had any losses associated with their cash deposits.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3: Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$ 2,054,811
Grants receivable, net of allowance	2,916,570
Accounts receivable	21,228
Less: net assets with purpose restrictions	(1,204,813)
	$ 3,787,796

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in money market funds. Occasionally, the Board designates a portion of any operating surplus to its building reserve. There was no reserve at June 30, 2023.

Note 4: Grants Receivable

At June 30, 2023, grants receivable were comprised of:

San Luis Obispo County	$ 2,055,024
Santa Barbara County	547,280
CA Department of Rehabilitation	240,180
City of San Luis Obispo	31,239
Other	46,254
Allowance for doubtful accounts	(3,407)
Grants receivable, net of allowance	$ 2,916,570

Note 5: Inventories

At June 30, 2023, inventories were comprised of:

Nursery	$ 83,895
Downtown store	14,375
Total inventories	$ 98,270

Note 6: Property and Equipment

At June 30, 2023, property and equipment were comprised of:

Land	$ 4,514,833
Buildings	10,351,234
Improvements	1,055,989
Farm equipment	169,800
Office equipment	93,743
Furniture and equipment	47,867
Vehicles	1,328,817
Software	41,972
Construction in progress	97,946
	17,702,201
Less accumulated depreciation and amortization	(5,485,267)
Property and equipment, net of accumulated depreciation and amortization	$ 12,216,934

Depreciation expense for the year ended June 30, 2023 was $482,474.

Note 7: Notes Payable

At June 30, 2023, notes payable were comprised of the following:

	Principal	Unamortized Debt Issuance Costs	Total
Note payable to a bank, secured by a first deed of trust with principal and interest at 3.68% due in monthly installments of $9,241 with a maturity date of October 2026.	$ 1,526,531		$ 1,526,531
Note payable to CA Health Facilities Financing, secured by a first deed of trust with principal and interest at 3.00% due in monthly installments of $3,577 with a maturity date of May 2027.	155,703		155,703

Note 7: Notes Payable (Continued)

	Principal	Unamortized Debt Issuance Costs	Total
Note payable to a bank, secured by a first deed of trust with principal and interest at 5.61% due in monthly installments of $3,917 for 60 months and 59 additional principal and interest payments of $4,270 at 5.78% interest. Note matures September 2024.	$ 535,479		$ 535,479
Note payable to a bank, secured by a first deed of trust with principal and interest at 3.95% due in monthly installments of $2,853 with a maturity date of June 2031.	513,579		513,579
Note payable to a bank, secured by a first deed of trust with principal and interest at 4.75% due in monthly installments of $2,871 with a maturity date of May 2042.	419,610		419,610
Note payable to a bank, secured by a first deed of trust with principal and interest at 5.00% due in monthly installments of $4,390 with a maturity date of June 2032.	797,750	(13,980)	783,770
Note payable to a bank, secured by a first deed of trust with principal and interest at 3.63% due in monthly installments of $5,404 with a maturity date of June 2024.	946,989		946,989
Note payable to McAdams Family Trust, secured by a first deed of trust with principal and interest at 5%, due in interest only monthly installments of $1,000, with balance and accrued interest due in August 2024.	370,000		370,000
Note payable to a bank, secured by 2 vehicles with principal and interest at 2.99% due in monthly installments of $639 with a maturity dates of August 2026 and September 2027.	22,942		25,821
Note payable to a bank, secured by a vehicle with principal and interest at 7.39% due in monthly installments of $558 with a maturity date of December 2026.	$ 19,945		$ 19,945
	5,308,528	(13,980)	5,297,427
Less current portion	(1,129,354)	1,553	(1,127,801)
Notes payable, net of current portion	$ 4,179,174	$ (12,427)	$ 4,169,626

Note 7: Notes Payable (Continued)

At June 30, 2023, principal maturities on notes payable were as follows:

For the Year Ending June 30,	Principal	Unamortized Debt Issuance Costs	Total
2024	$ 1,129,354	$ (1,553)	$ 1,127,801
2025	1,033,038	(1,553)	1,031,485
2026	146,906	(1,553)	145,353
2027	1,483,168	(1,553)	1,481,615
2028	55,123	(1,553)	53,570
Thereafter	1,460,939	(6,215)	1,457,603
Total	$ 5,308,528	$ (13,980)	$ 5,297,427

Two of the notes payable are subject to a loan covenant with the lender for a minimum debt service coverage ratio. At June 30, 2023, the Organization was in compliance with that covenant.

Note 8: Designations and Restrictions on Net Assets

At June 30, 2023, the Organization had the following net assets with donor restrictions:

Purpose restrictions:	
AFDC	$ 304,931
TMHA Studios	145,196
Garner Homeless Fund	93,502
Growing Grounds FSM	91,833
Growing Grounds enterprise	88,042
Santa Barbara programs	103,406
YTP programs	63,309
Nipomo/Pacific replacement reserve	45,000
Nipomo/Pacific COSR	95,452
Other	174,142
Time-restricted for future periods:	
Forgivable loans	3,006,992
	$ 4,211,805

Additionally, as of June 30, 2023, the Board of Directors has designated $100,000 of unrestricted nets assets for building reserves, which is intended to support major repairs on owned properties. These net asset designations by the Board of Directors may be re-designated at the discretion of the Board as circumstances, Organization needs or financial conditions change.

Transitions-Mental Health Association
Notes to Financial Statements
June 30, 2023

Note 9: Leases

The Organization is party to seven lease agreements for office space and residential housing that are classified as operating leases under Topic 842. These leases expire through March 2027. As of June 30, 2023, the value of the Organization's ROU asset for these leases $685,134, and the related lease liability totaled $691,150.

Additionally, the Organization leases other residential housing units on a short-term, month-to-month basis, that are generally rented out to clients.

Quantitative Disclosures

Lease expense for the year ended June 30, 2023 was as follows:

Operating lease expense	$	236,338
Short-term lease expense		1,655,460
Total lease expense	$	1,891,798

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

Operating cash flows from operating leases	$	230,322
ROU assets obtained in exchange for operating lease liabilities upon adoption	$	493,140
ROU assets obtained in exchange for new operating lease liabilities	$	400,859
Weighted-average remaining lease term in years for operating leases		2.93
Weighted-average discount rate for operating leases		3.55%

Future minimum lease payments on operating leases as of June 30, 2023 were:

For the year ended June 30,		
2024	$	285,275
2025		208,061
2026		178,631
2027		55,056
Total undiscounted cash flows		727,023
Less: present value discount		(35,873)
Total lease liabilities	$	691,150

Note 10: Commitments and Contingencies

Contingencies

Grant Awards:
Grant awards require the fulfillment of certain conditions set forth in the instruments of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantor. The Organization deems this contingency remote as

Note 10: Commitments and Contingencies (Continued)

management is of the opinion that by accepting the grant and its terms, the Organization intends to comply with the terms of the grant.

Contingencies (Continued)

Guarantee of Low-Income Housing:
The Organization entered into contract agreements with different governmental funding sources to make improvements to the Organization's housing facilities. In accordance within the provisions of these agreements, the Organization must continue to utilize the specific facilities for their intended exempt purpose for periods ranging from ten (10) years to fifty-five (55) years depending on the funder and will be forgiven through February 2066. No payment is due back to the funding source unless the Organization breaks the contract. If the Organization continues to use the facilities as stipulated by offering housing to low-income individuals, then the required guarantee will be forgiven over the contract period. Management has no intention of breaking the contract agreements. These amounts are included in net assets with donor restrictions until the restrictions are released and totaled $3,006,992 at June 30, 2023.

Management expects the loan balances to be forgiven as follows:

For the Year Ending June 30,	
2024	$ 22,480
2025	22,479
2026	17,500
2027	6,076
2028	250,000
Thereafter	2,688,457
Total	$ 3,006,992

Bishop Street Studios:
In April 2014, the Organization entered into a no obligation option agreement with the County of San Luis Obispo to purchase certain property and easements for a purchase price of $100 with a restrictive covenant that the property be used for affordable housing for the mentally disabled population. In May 2016, the Organization entered into a Memorandum of Understanding (MOU) with Housing Authority of the City of San Luis Obispo (HASLO) to form a limited partnership under a joint venture agreement for the purpose of developing and operating approximately 34 permanent affordable housing units on the property for individuals with a mental health diagnosis. HASLO and the Organization each own .0045% of the limited partnership, Bishop Street Studios, LP (BSS, LP) and are general partners. The remaining 99.99% is owned by the investment limited partner and provides tax credits to the limited partners over a 15-year period. At the end of the 15-year period the general partners will have the right to buy the project at a pre-established formula from the partnership.

Note 10: Commitments and Contingencies (Continued)

The facility was completed in September 2019, and the Organization is currently operating it in accordance with the original agreement.

Note 11: Retirement Plan

The Organization maintains a defined contributory retirement plan for its employees which allows participants to make tax deferred investment contributions. The plan qualifies under the provisions of Section 403(b) of the Internal Revenue Code. The Organization matches up to 5% of employee contributions. Employer contributions for the year ended June 30, 2023 were $339,041.

Note 12: Prior Year Restatement

The Organization identified $223,592 of net assets that include donor restrictions but were incorrectly categorized as unrestricted in the prior year. Therefore, the Organization has restated beginning restricted net assets as of July 1, 2022 for this amount.

Note 13: Subsequent Events

Events subsequent to June 30, 2023 have been evaluated through February 26, 2024, which is the date the financial statements were available to be issued.

During the month of August 2023, the Organization purchased a piece of property on Edna Road in San Luis Obispo. To fund the purchase, the Organization sold its property on Tunnell Street and used the proceeds to make the downpayment on the new property on Edna Road. Additionally, the Organization entered into a mortgage payable agreement for the Edna Road property in the amount of $1.8 million. The mortgage requires monthly payments in the amount of $9,308, including interest calculated at 2% per annum, until its maturity in October 2043, and is secured by the property.

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Other Reports

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*

To the Board of Directors of
Transitions-Mental Health Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Transitions-Mental Health Association (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 26, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Transitions-Mental Health Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Transitions-Mental Health Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Transitions-Mental Health Association'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 over financial reporting 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.

GLENNBURDETTE.COM
p (805) 544 - 1441
f (805) 544 - 4351

SAN LUIS OBISPO
1150 Palm Street
San Luis Obispo, CA 93401

PASO ROBLES
102 South Vine Street
Paso Robles, CA 93446

SANTA MARIA
2222 South Broadway, Ste. A
Santa Maria, CA 93454

Report on Compliance and Other Matters

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

Purpose of this Report

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

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

February 26, 2024