

Transitions - Mental Health Association



Audited Financial Statements
Year Ended June 30, 2022



**Transitions-Mental Health Association
Consolidated Financial Statements
Year Ended June 30, 2022**

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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, 2022, 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, 2022, 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.

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.

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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, 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.

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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2023, 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.

A handwritten signature in black ink that reads "GLENN BURDETTE ATTEST CORPORATION". The letters are in all caps and have a cursive, slightly irregular style.

Glenn Burdette Attest Corporation
San Luis Obispo, California

February 27, 2023

Transitions-Mental Health Association
Consolidated Statement of Financial Position
June 30, 2022

Assets

Current assets:

Cash and cash equivalents	\$ 2,048,142
Grants receivable, net of allowance	2,201,674
Promises to give	500
Accounts receivable	26,766
Inventories	95,632
Prepaid expenses	406,172
Total current assets	4,778,886

Other assets:

Property and equipment, net of accumulated depreciation and amortization	11,946,385
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Total assets	\$ 16,725,271
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Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 90,543
Accrued payroll and related expenses	381,047
Accrued vacation	359,797
Other accrued liabilities	129,244
Deferred revenue	121,014
Notes payable, current portion, net of unamortized debt issuance costs	360,264
Total current liabilities	1,441,909

Long-term liabilities:

Notes payable, net of current portion and unamortized debt issuance costs	4,936,125
Total long-term liabilities	4,936,125

Total liabilities	6,378,034
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Net assets:

Without donor restrictions	6,742,541
With donor restrictions	3,604,696
Total net assets	10,347,237

Total liabilities and net assets	\$ 16,725,271
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The accompanying notes are an integral part of these financial statements.

Transitions-Mental Health Association
Consolidated Statement of Activities
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restricted</u>	<u>Total</u>
Revenues and support:			
Federal grants	\$ 1,992,721	\$	\$ 1,992,721
State and local grants	195,289	81,710	276,999
Contract income	10,364,155		10,364,155
Client rents	1,553,963		1,553,963
Contributions	494,192	147,559	641,751
Fundraising events, net of direct costs of \$1,991	48,572		48,572
Interest income	797		797
Gain on extinguishment of debt	702,965		702,965
Other revenue	101,903		101,903
Nursery revenue, net of cost of goods sold	297,745		297,745
Total revenues and support	<u>15,752,302</u>	<u>229,269</u>	<u>15,981,571</u>
 Net assets released from restrictions	 <u>241,573</u>	 <u>(241,573)</u>	 <u>-</u>
Expenses:			
Program services	12,975,172		12,975,172
Supporting services:			
General and administrative	1,862,020		1,862,020
Fundraising	76,968		76,968
Total expenses	<u>14,914,160</u>		<u>14,914,160</u>
 Change in net assets	 1,079,715	 (12,304)	 1,067,411
 Net assets - beginning of the year	 <u>5,662,826</u>	 <u>3,617,000</u>	 <u>9,279,826</u>
 Net assets - end of year	 <u>\$ 6,742,541</u>	 <u>\$ 3,604,696</u>	 <u>\$ 10,347,237</u>

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

Transitions-Mental Health Association
Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services				Total Program Services	General and Administrative	Fundraising	Total
	Housing Services	Community Wellness and Education	Mental Health Treatment Services	Vocational Services				
Advertising and pre-employment	\$ 1,207	\$ 2,120	\$ 4,795	\$ 1,891	\$ 10,013	\$ 2,905	\$	\$ 12,918
Client expenses	93,252	38,733	98,261	25,815	256,061			256,061
Computers and information technology	2,526	37,553	52,043	25,567	117,689	9,576		127,265
Contracted employees			59,978	74,887	134,865			134,865
Cost of goods sold				309,429	309,429			309,429
COVID-19 expenses	6,701	7,097	16,708	3,645	34,151	1,388	128	35,667
Credit card fees				9,457	9,457		5,835	15,292
Depreciation and amortization	123,266	13,525	106,709	36,220	279,720	157,951	9,806	447,477
Dues and subscriptions	1,183	19,190	8,715	12,535	41,623	56,717	3,831	102,171
Fundraising	14,714	9,048	5,051	6,275	35,088	11,870	11,248	58,206
Furniture and equipment	46,851	1,452	1,036		49,339	61		49,400
Insurance	41,521	23,258	53,785	19,929	138,493	16,298	1,519	156,310
Interest	55,053	6,041	47,660	16,179	124,933	70,547	4,380	199,860
Marketing and public relations	300	2,229	296	1,059	3,884	7,898	60	11,842
Occupancy fee	97,411	24,756	43,989	9,324	175,480	113,695	2,765	291,940
Office supplies	11,927	23,358	34,801	5,551	75,637	21,648	8	97,293
Other expenses	12,735	7,441	14,981	5,620	40,777		681	41,458
Postage and printing	81	2,782	3,296	848	7,007	6,866	6,249	20,122
Professional fees	8,092	38,729	137,596	11,454	195,871	295,738	330	491,939
Program supplies	19,328	28,244	17,537	2,432	67,541	509	3,612	71,662
Rent	1,505,708	31,746	88,627	16,700	1,642,781			1,642,781
Rent subsidies	91		301		392			392
Repairs and maintenance	126,106	7,303	10,389	6,299	150,097	184		150,281
Salaries, wages, and related expenses	1,565,550	1,934,630	3,965,195	1,202,682	8,668,057	1,017,242	27,913	9,713,212
Staff development and training	3,366	20,220	27,812	1,249	52,647	18,480	129	71,256
Stipends		5,457			5,457	1,800		7,257
Taxes and licenses	19,307			938	20,245	35,441		55,686
Telephone	54,892	38,759	58,979	16,489	169,119	9,541	437	179,097
Transportation	35,560	48,682	71,778	20,569	176,589	5,665	28	182,282
Utilities	243,931	13,609	23,023	11,596	292,159			292,159
Total expenses by function	4,090,659	2,385,962	4,953,341	1,854,639	13,284,601	1,862,020	78,959	15,225,580
Less expenses included with revenues on the statement of activities:								
Cost of goods sold				(309,429)	(309,429)			(309,429)
Direct costs of fundraising							(1,991)	(1,991)
Total expenses included in the expense section on the statement of activities	\$ 4,090,659	\$ 2,385,962	\$ 4,953,341	\$ 1,545,210	\$ 12,975,172	\$ 1,862,020	\$ 76,968	\$ 14,914,160

**Transitions-Mental Health Association
Consolidated Statement of Cash Flows
Year Ended June 30, 2022**

Cash flows from operating activities:		
Change in net assets		\$ 1,067,411
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	\$ 447,477	
Loss on disposal of property	14,714	
Gain on extinguishment of debt	(702,965)	
Changes in operating assets and liabilities:		
Grants receivable	(82,018)	
Promises to give, net of allowance	19,372	
Accounts receivable	(4,670)	
Inventories	11,913	
Prepaid expenses	(84,134)	
Accounts payable	(163,766)	
Accrued payroll and related expenses	(29,972)	
Accrued vacation	(15,387)	
Accrued unemployment insurance	(48,220)	
Other accrued liabilities	(66,056)	
Deferred revenue	90,981	
Total adjustments	<u>(612,731)</u>	
Net cash provided by operating activities		<u>454,680</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(768,720)</u>	
Net cash used in investing activities		(768,720)
Cash flows from financing activities:		
Repayments on notes payable	<u>(211,439)</u>	
Net cash used in financing activities		<u>(211,439)</u>
Net decrease in cash and cash equivalents		(525,479)
Cash and cash equivalents - beginning of year		<u>2,573,621</u>
Cash and cash equivalents - end of year		<u><u>\$ 2,048,142</u></u>
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year		\$ 199,860
Non-cash transactions:		
Issuance of notes payable for property and equipment		\$ 861,191

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

Transitions-Mental Health Association
Notes to Financial Statements
June 30, 2022

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.

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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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, 2022.

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. At June 30, 2022, the Organization had \$426,381 of 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 \$3,292 at June 30, 2022.

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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Note 2: Summary of Significant Accounting Policies (Continued)

Promises To Give

Promises to give are unconditional promises to make future payments to the Organization. Promises to give are recognized as contributions in the period pledged when all applicable eligibility requirements are met. Promises to give are recorded net of an allowance for doubtful accounts, which was \$0 at June 30, 2022. Management has determined that a discount to record promises to give at their present value is immaterial to the financial statements and has not recorded any discount for promises to give in these financial statements.

Inventories

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

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, 2022.

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.

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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Note 2: Summary of Significant Accounting Policies (Continued)

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 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.

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.

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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Note 2: Summary of Significant Accounting Policies (Continued)

Management has determined the Organization is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Donated Materials and Services

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 specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. However, the value of these donations is not reflected in the accompanying financial statements since they do not meet the two recognition criteria described above. In-kind donations of fixed assets and supplies used directly by the Organization are valued at their appraised values at the time of the bequest.

Advertising Costs

Advertising costs consist of non-direct response costs and are expensed as incurred. Advertising costs for the year ended June 30, 2022 totaled \$12,918.

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 65% of total revenues during the year ended June 30, 2022.

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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Note 2: Summary of Significant Accounting Policies (Continued)

At June 30, 2022, two grantors that made up 86% 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, 2022, the Organization had cash balances in excess of the FDIC limit of \$1,411,128. 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	\$ 2,048,142
Grants receivable, net of allowance	2,201,674
Promises to give	500
Accounts receivable	26,766
Less: net assets with purpose restrictions	<u>(575,224)</u>
	<u><u>\$ 3,701,858</u></u>

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, 2022.

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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Note 4: Grants Receivable

At June 30, 2022, grants receivable were comprised of:

San Luis Obispo County	\$	1,428,019
Santa Barbara County		254,792
San Luis Obispo County Department of Social Services		138,292
AFDC		58,212
DOR		133,441
Other		192,210
Allowance for doubtful accounts		<u>(3,292)</u>
Grants receivable, net of allowance	\$	<u><u>2,201,674</u></u>

Note 5: Inventories

At June 30, 2022, inventories were comprised of:

Nursery	\$	79,106
Downtown store		<u>16,526</u>
Total inventories	\$	<u><u>95,632</u></u>

Note 6: Property and Equipment

At June 30, 2022, property and equipment were comprised of:

Land	\$	4,130,433
Buildings		10,114,509
Improvements		1,041,689
Farm equipment		169,800
Office equipment		146,503
Furniture and equipment		47,867
Vehicles		1,289,193
Software in development		41,972
Construction in progress		<u>16,968</u>
		16,998,934
Less accumulated depreciation and amortization		<u>(5,052,549)</u>
Property and equipment, net of accumulated depreciation and amortization	\$	<u><u>11,946,385</u></u>

Depreciation expense for the year ended June 30, 2022 was \$447,477.

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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Note 7: Notes Payable

At June 30, 2022, notes payable were comprised of the following:

	<u>Principal</u>	<u>Unamortized Debt Issuance Costs</u>	<u>Total</u>
Note payable to a bank, secured by a first deed of trust with principal and interest at 4.25% due in monthly installments of \$1,142 with a maturity date of October 2022.	\$ 153,728	\$	\$ 153,728
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.	1,584,253		1,584,253
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.	193,263		193,263
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.	554,898		554,898
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.	527,031		527,031
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.	437,616		437,616
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.	808,892	(15,534)	793,358
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.	976,397		976,397
Note payable to a bank, secured by a vehicle with principal and interest at 4.75% due in monthly installments of \$1,034 with a maturity date of February 2023.	8,022		8,022
Note payable to a bank, secured by a vehicle with principal and interest at 8.79% due in monthly installments of \$415 with a maturity date of May 2023.	12,572		12,572
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.	29,665		29,665

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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Note 7: Notes Payable (Continued)

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.

	\$ 25,586		\$ 25,586
	5,311,923	(15,534)	5,296,389
Less current portion	(361,817)	1,553	(360,264)
Notes payable, net of current portion	<u>\$ 4,950,106</u>	<u>\$ (13,981)</u>	<u>\$ 4,936,125</u>

At June 30, 2022, principal maturities on notes payable were as follows:

<u>For the Year Ending June 30,</u>	<u>Principal</u>	<u>Unamortized Debt Issuance Costs</u>	<u>Total</u>
2023	\$ 361,817	\$ (1,553)	\$ 360,264
2024	1,118,983	(1,553)	1,117,430
2025	672,869	(1,553)	671,316
2026	163,570	(1,553)	162,017
2027	2,246,335	(1,553)	2,244,782
Thereafter	748,349	(7,769)	740,580
Total	<u>\$ 5,311,923</u>	<u>\$ (15,534)</u>	<u>\$ 5,296,389</u>

Additionally, under the CARES Act, the Company had a Paycheck Protection Program (PPP) note payable that was fully forgiven under the PPP Flexibility Act of 2020. For the year ended June 30, 2022, \$702,965 is included in revenues and support on the statement of activities as a gain on the extinguishment of debt.

Two of the notes payable are subject to a loan covenant with the lender for a minimum debt service coverage ratio. At June 30, 2022, the Organization was in compliance with that covenant.

Note 8: Designations and Restrictions on Net Assets

At June 30, 2022, the Organization had the following net assets with donor restrictions:

Purpose restrictions:	
Santa Barbara programs	\$ 142,036
San Luis Obispo programs	262,940
Growing Grounds enterprise	170,248
Time-restricted for future periods:	
Forgivable loans	<u>3,029,472</u>
	<u>\$ 3,604,696</u>

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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Note 8: Designations and Restrictions on Net Assets (Continued)

At June 30, 2022, the Board of Directors had no designated unrestricted net 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.

Note 9: Operating Leases

The Organization leases office space and facilities under seven non-cancellable lease agreements which expire through November 2023. In addition, the Organization leases five copiers for their office locations with lease terms through September 2026.

At June 30, 2022, future minimum lease payments under these operating leases were as follows:

<u>For the Year Ending June 30,</u>	
2023	\$ 195,197
2024	35,651
2025	21,606
2026	20,340
2027	5,085
Total	<u>\$ 277,879</u>

During the year, the Organization also leased approximately 84 housing units on a month-to-month basis that are generally rented out to clients. Rent expense under these leases for the year ended June 30, 2022, was \$1,642,781.

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

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

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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Note 10: Commitments and Contingencies (Continued)

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 \$3,029,472 at June 30, 2022.

Management expects the loan balances to be forgiven as follows:

For the Year Ending June 30,

2023	\$	22,480
2024		22,480
2025		22,479
2026		17,500
2027		6,076
Thereafter		<u>2,938,457</u>
Total	\$	<u>3,029,472</u>

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.

As of September 2019 the facility was completed, and the Organization is currently operating it in accordance with the original agreement. As part of the MOU, the Organization has raised \$2,402,466 through June 30, 2022. Going forward, additional contributions will be made as necessary to maintain the tax credit status for the limited partnership.

Transitions-Mental Health Association

Notes to Financial Statements

June 30, 2022

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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, 2022 were \$268,909.

Note 12: Subsequent Events

Events subsequent to June 30, 2022 have been evaluated through February 27, 2023, which is the date the financial statements were available to be issued. Management did not identify any subsequent events requiring disclosure.

Federal Awards



**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 Trustees 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, 2022, 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 27, 2023.

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.

Board of Trustees
Transitions-Mental Health Association
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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 27, 2023



**Independent Auditors' Report on Compliance for Each Major Program
And on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Trustees of
Transitions-Mental Health Association

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Transitions-Mental Health Association's 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 Transitions-Mental Health Association's major federal programs for the year ended June 30, 2022. Transitions-Mental Health Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs.

In our opinion, Transitions-Mental Health Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

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; 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 Auditor's Responsibilities for the Audit of Compliance 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Transitions-Mental Health Association'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 Transitions-Mental Health Association's federal programs.

Auditor's Responsibility 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 Transitions-Mental Health Association'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 generally accepted auditing standards, *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 Transitions-Mental Health Association's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Transitions-Mental Health Association'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 Transitions-Mental Health Association'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 Transitions-Mental Health Association'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

Board of Trustees
Transitions-Mental Health Association
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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 Auditor's Responsibilities for the Audit of Compliance section above was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies, 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.

GLENN BURDETTE ATTEST CORPORATION

Glenn Burdette Attest Corporation
San Luis Obispo, California

February 27, 2023

Transitions-Mental Health Association
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/ Pass-through Grantor/ Program Title	Federal Assistance Listing Number	Pass-through Agency Number	Federal Expenditures
US Department of Housing and Urban Development			
Passed through City of Santa Maria Community Development Block Grant/Entitlement Grants	14.218	95-6000788	\$ 14,939
Passed through County of San Luis Obispo Supportive Housing Program - SLO City 21/22	14.267	95-6000939	234,231
Supportive Housing Program - SLO City 22/23	14.267	95-6000939	23,250
Supportive Housing Program - Central Coast - 20/21	14.267	95-6000939	143,617
Supportive Housing Program - Central Coast & Bordeaux - 21/22	14.267	95-6000939	298,310
			<u>699,408</u>
Passed through County of San Luis Obispo Home Investment Partnership Program	14.239	95-6000939	305,289
			<u>305,289</u>
Subtotal US Department of Housing and Urban Development			<u>1,019,636</u>
US Department of Education			
Passed through State of California Department of Rehabilitation Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	68-0279670	48,725
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	68-0279670	97,023
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	68-0279670	70,971
Subtotal US Department of Education			<u>216,719</u>
US Department of Health and Human Services			
Passed through County of San Luis Obispo Projects for Assistance in Transition from Homelessness (PATH)	93.150	95-6000939	39,513
Foster Care-Title IV-E	93.658	95-6000939	483,620
Suicide Triage and Response Team (START)	93.665	95-6000939	39,056
Passed through The Center at Sierra Health Foundation Community Mental Health Services Block Grant	93.958	45-5282243	23,562
Community Mental Health Services Block Grant	93.958	45-5282243	33,478
			<u>57,040</u>
Passed through Advocates for Human Potential, Inc. Substance Abuse Prevention and Treatment Block Grant	93.959		159,877
Substance Abuse Prevention and Treatment Block Grant	93.959		169,757
			<u>329,634</u>
Subtotal US Department of Health and Human Services			<u>948,863</u>
US Department of Homeland Security			
Passed through California Mental Health Services Authority COVID-19: FEMA Crisis Counseling Assistance and Training Program	97.032		127,731
Subtotal US Department of Homeland Security			<u>127,731</u>
Total			<u>\$ 2,312,949</u>

See accompanying notes to schedule of expenditures of federal awards.

Transitions-Mental Health Association
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Note 1: Basis of Presentation

The purpose of the accompanying schedule of expenditures of federal awards (the schedule) is to present a summary of those activities of Transitions-Mental Health Association (the Organization) for the year ended June 30, 2022 which have been financed by federal awards. For purposes of the schedule, federal awards include all federal grants received directly from the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. Because the schedule presents only a selected portion of the activities of the Organization, it is not intended to and does not present either the financial position or changes in net position of the Organization.

The information in this Schedule is presented in accordance with the 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). Therefore, some amounts presented in this schedule may differ from amounts presented in the basic financial statements.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures in prior years. There were no sub-recipients for the year ended June 30, 2022.

Note 3: Indirect Cost Rate

The Organization has not elected to use the ten percent de minimis indirect cost rate as allowed under the Uniform Guidance, but rather the rates established directly with the respective federal agencies.

Note 4: Loans Outstanding

The Organization had the following loan balances outstanding at June 30, 2022. These balances do not include the interest that would be payable on the loans if the Organization were in default.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant/Entitlement Grants	14.218	\$ 14,939
Home Investment Partnership Program	14.239	305,289
		<u>\$ 320,228</u>

**Transitions-Mental Health Association
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Section I: Summary of Auditors' Results

Financial Statements:

(a) Type of auditors' report issued on financial statements: **Unmodified.**

(b) Internal control over financial reporting:

- Material weakness(es) identified: **No.**
- Significant deficiencies identified not considered to be material weakness: **None reported.**

(c) Noncompliance material to financial statements noted: **No.**

Federal Awards:

(d) Internal control over major programs:

- Material weakness(es) identified: **No.**
- Significant deficiencies identified not considered to be material weaknesses: **None reported.**

(e) Type of auditors' report issued on compliance for major programs: **Unmodified.**

(f) Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of Uniform Guidance: **No.**

(g) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000.**

(h) Major Program(s):

- U.S. Department of Health and Human Services – Substance Abuse Prevention and Treatment Block Grant (ALN #93.959)
- U.S. Department of Education – Rehabilitation Services Vocational Rehabilitation Grants to States (ALN #84.126)

(i) Auditee qualified as low-risk auditee: **Yes.**

Section II: Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance With Generally Accepted *Government Auditing Standards*

None.

Section III: Findings and Questioned Costs for Federal Awards

None.

**Transitions-Mental Health Association
Status of Prior Year Findings and Questioned Costs – June 30, 2021
Year Ended June 30, 2022**

None.