

**Transitions-Mental Health Association**

**Consolidated Financial Statements**

**Year Ended June 30, 2017**

**Transitions-Mental Health Association  
Consolidated Financial Statements  
Year Ended June 30, 2017**

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## Independent Auditors' Report

To the Board of Directors of  
Transitions-Mental Health Association

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated 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, 2017, 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.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

**Board of Directors of  
Transitions-Mental Health Association  
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transitions-Mental Health Association as of June 30, 2017, 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.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated November 20, 2017, on our consideration of Transitions-Mental Health Association's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transitions-Mental Health Association's internal control over financial reporting and compliance.

**GLENN BURDETTE ATTEST CORPORATION**

Glenn Burdette Attest Corporation  
San Luis Obispo, California

November 20, 2017

**Transitions-Mental Health Association**  
**Consolidated Statement of Financial Position**  
**June 30, 2017**

**Assets**

**Current assets:**

Cash and cash equivalents	\$ 2,537,109
Grants receivable	1,507,749
Promises to give, net of allowance	245,095
Accounts receivable	23,938
Inventories	159,102
Prepaid expenses	264,993
Total current assets	<u>4,737,986</u>

**Other assets:**

Property and equipment, net of accumulated depreciation and amortization	<u>9,276,023</u>
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Total assets	<u><u>\$ 14,014,009</u></u>
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**Liabilities and Net Assets**

**Current liabilities:**

Accounts payable	\$ 181,107
Accrued payroll and related expenses	297,029
Accrued vacation	259,218
Accrued unemployment insurance	62,410
Other accrued liabilities	148,682
Notes payable, current portion	152,689
Total current liabilities	<u>1,101,135</u>

**Long-term liabilities:**

Notes payable, net of current portion	<u>3,513,158</u>
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Total liabilities	<u>4,614,293</u>
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**Net assets:**

Unrestricted:	
Board restricted	100,000
Undesignated	4,613,124
Temporarily restricted	<u>4,686,592</u>
Total net assets	<u>9,399,716</u>

Total liabilities and net assets	<u><u>\$ 14,014,009</u></u>
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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, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and support:</b>			
Federal grants	\$ 1,079,202	\$	\$ 1,079,202
State and local grants and contracts	9,232,422	188,961	9,421,383
Client rents	968,007		968,007
Contributions	66,498	1,259,652	1,326,150
Fundraising, net of direct costs (\$32,716)	101,040		101,040
Other revenue	67,473		67,473
Nursery revenue, net of cost of goods sold	278,569		278,569
Total revenues and support	<u>11,793,211</u>	<u>1,448,613</u>	<u>13,241,824</u>
 Net assets released from restrictions	 <u>170,845</u>	 <u>(170,845)</u>	 <u>-</u>
<b>Expenses:</b>			
Program services	10,448,155		10,448,155
Supporting services:			
General and administrative	1,289,365		1,289,365
Fundraising	21,609		21,609
Total expenses	<u>11,759,129</u>		<u>11,759,129</u>
 Change in net assets	 204,927	 1,277,768	 1,482,695
 <b>Net assets - beginning of year</b>	 <u>4,508,197</u>	 <u>3,408,824</u>	 <u>7,917,021</u>
 <b>Net assets - end of year</b>	 <u>\$ 4,713,124</u>	 <u>\$ 4,686,592</u>	 <u>\$ 9,399,716</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, 2017**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 20,706	\$ 157	\$	\$ 20,863
Building expense and interest	145,795			145,795
Depreciation and amortization	377,070			377,070
Dues and subscriptions	4,204	20,631		24,835
Employee benefits	869,455	101,385		970,840
Employer taxes	446,124	48,021		494,145
Equipment purchases	16,999	3,555		20,554
Fundraising			11,096	11,096
Honorarium	11,366			11,366
Insurance	79,350	327	288	79,965
Other expenses	69,536	1,598	8,433	79,567
Postage and printing	14,630	3,232	1,235	19,097
Professional fees	21,046	214,436		235,482
Recreation and client expenses	328,758			328,758
Rent	894,941	128,305		1,023,246
Repairs and maintenance	139,545	3,483		143,028
Salaries and wages	5,749,478	643,697		6,393,175
Subcontractors	213,411			213,411
Supplies	259,244	57,365	64	316,673
Taxes and licenses	8,351		493	8,844
Telephone	106,351	9,952		116,303
Transportation	161,804	7,967		169,771
Travel and training	112,766	33,887		146,653
Utilities	227,516			227,516
Worker's compensation insurance	169,709	11,367		181,076
<b>Total</b>	<u>\$ 10,448,155</u>	<u>\$ 1,289,365</u>	<u>\$ 21,609</u>	<u>\$ 11,759,129</u>

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

**Transitions-Mental Health Association**  
**Consolidated Statement of Cash Flows**  
**Year Ended June 30, 2017**

<b>Cash flows from operating activities:</b>		
Change in net assets		\$ 1,482,695
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	\$ 377,070	
Changes in operating assets and liabilities:		
Grants receivable	7,301	
Promises to give	(245,095)	
Accounts receivable	(2,461)	
Inventories	(29,908)	
Prepaid expenses	(23,266)	
Accounts payable	(44,804)	
Accrued payroll and related expenses	27,710	
Accrued vacation	5,872	
Accrued unemployment insurance	(18,812)	
Other accrued liabilities	(186)	
Total adjustments	<u>53,421</u>	
Net cash provided by operating activities		<u>1,536,116</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	<u>(184,061)</u>	
Net cash used in investing activities		(184,061)
<b>Cash flows from financing activities:</b>		
Repayments on notes payable	(1,916,667)	
Borrowings on notes payable	<u>1,739,568</u>	
Net cash used in financing activities		<u>(177,099)</u>
Net increase in cash and cash equivalents		1,174,956
<b>Cash and cash equivalents - beginning of year</b>		<u>1,362,153</u>
<b>Cash and cash equivalents - end of year</b>		<u><u>\$ 2,537,109</u></u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest during the year		\$ 128,307
Non-cash transactions:		
Issuance of notes payable for property and equipment		\$ 697,112

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



**Transitions-Mental Health Association**  
**Notes to Financial Statements**  
**June 30, 2017**

**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 goal is to design, develop and operate programs that give opportunities to psychiatrically disabled adults, at-risk youth and emotionally needy children. 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 has 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 temporarily restricted net assets.

The Organization operates 35 programs at over 57 locations that reach 5,000 people and 1,500 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:* The Organization assists their clients in creating and sustaining a home. Within their housing program, young people (ages 11-17) receive treatment and practice social, educational and independent living skills in a home with 24-hour supervision and therapeutic care. The Organization also offers transitional housing for adults learning to stabilize symptoms and develop independent living skills.

*Family Services:* The family services 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, they provide information and referrals to community resources.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 1: Organization (Continued)**

*Community:* To help eliminate the isolating effect of mental illness, the Organization runs drop-in centers to promote independence and revitalization through self-governed activities. The Organization also participates in multi-agency collaborations that provide 24/7 support services where and when they are needed. Services include psychiatric care, housing assistance, substance abuse recovery, health, financial, education, employment and social support.

*Supported Employment Program:* The Organization provides on-going job support services necessary for helping individuals with mental illnesses to choose, acquire and keep competitive employment. The Growing Grounds programs serve as a link for the supported employment program within the community. Farm and nursery operations are maintained on approximately eight acres located outside the City of San Luis Obispo.

**Note 2: Summary of Significant Accounting Policies**

**Basis of Accounting**

The consolidated financial statements have been prepared on the accrual basis of accounting, which requires that revenues be recorded when earned and expenses be recorded when incurred. Revenues from cost reimbursement grants are recorded as the costs related to performance of the grant requirements are incurred. Revenues from other sources are recognized when earned. Net unreimbursed grant expenses are recorded as grants receivable and net cash advances in excess of grant expenses are recorded as refundable advances in the accompanying consolidated financial statements.

**Financial Statement Presentation**

In accordance with the Not for Profit Entities Topic of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Organization is required to report information regarding its financial position and activities according to three classes of net assets according to externally (donor) imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization does not have any permanently restricted net assets.

**Basis 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, 2017.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

**Contributions**

In accordance with the Not for Profit Entities Topic of FASB ASC, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Donor-restricted contributions and grants whose restrictions are met in the same year are reported as unrestricted support. The Organization also receives grants which are accounted for like contributions and has reported temporarily restricted revenues based on grantor-imposed limitations on the use of the assets.

**Recognition of Donor Restrictions**

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, (that is, when a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions".

**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 determined that an allowance for doubtful accounts was unnecessary at June 30, 2017. Any bad debts in the future would be charged off as incurred.

**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 payments to be made in future years are recorded net of an allowance for doubtful accounts of \$12,900 at June 30, 2017. Management has determined that a discount to record promises to give at their present value is immaterial to the financial statements and has not been recorded in these financial statements.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

**Inventories**

Inventories are stated at the lower of cost or market 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 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.

**Income Taxes**

The Organization has been determined to be exempt from federal taxes on income under Internal Revenue Code Section 501(c) (3) as a publicly supported Organization. The Organization is also exempt from state income taxes. However, the Organization remains subject to taxes on any net income that is derived from a trade or business, regularly carried on, and unrelated to its exempt purpose with certain exclusions. No income taxes have been recorded in the accompanying consolidated financial statements for taxable unrelated business income since management believes the Organization has none.

SLO Transitions, LLC is a limited liability company (LLC) and does not incur income taxes as earnings are included as part of the Organization return. In California, an LLC is subject to state income taxes at a minimum of \$800 and an LLC fee based on the gross receipts.

Income Taxes Topic of FASB ASC requires, among other things, the recognition and measurement of tax positions based on a "more likely than not" (likelihood greater than 50%) approach. As of June 30, 2017, management has considered its tax positions and believes that the Organization did not maintain any tax positions that did not meet the "more likely than not" threshold. The Organization does not expect any material changes through June 30, 2018. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after June 30, 2014, and by the California Franchise Tax Board for fiscal years ending on or after June 30, 2013.

**Advertising Costs**

Advertising costs consist of nondirect-response costs and are expensed as incurred. Advertising costs for the year ended June 30, 2017 totaled \$20,863.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 2: Summary of Significant Accounting Policies (Continued)**

**Concentrations**

*Major Funding:*

The Organization received grant funding from San Luis Obispo and Santa Barbara Counties, which accounted for approximately 71% of total revenues during the year ended June 30, 2017.

At June 30, 2017, there were two grantors that made up 88% of the grants receivable balance. In addition, there was one customer that made up 20% of the accounts receivable balance and three donors that made up 61% of the promises to give balance at June 30, 2017.

*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, 2017, the Organization had cash balances in excess of the FDIC limit of \$1,986,020.

**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.

**Subsequent Events**

Events subsequent to June 30, 2017 have been evaluated through November 20, 2017, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 3: Grants Receivable**

At June 30, 2017, grants receivable were comprised of:

San Luis Obispo County	\$	905,591
Santa Barbara County		261,011
San Luis Obispo County Department of Planning and Building		118,965
San Luis Obispo County Department of Social Services		48,184
California Department of Rehabilitation		68,288
Other		105,710
		<u>105,710</u>
Total grants receivable	\$	<u>1,507,749</u>

**Note 4: Promises To Give**

At June 30, 2017, promises to give were comprised of:

Bishop Street Studios	\$	257,995
Less allowance for uncollectible accounts		<u>(12,900)</u>
Pledges receivable, net	\$	<u>245,095</u>
Amounts due in:		
One year or less	\$	68,732
One to five years		<u>189,263</u>
Total amounts due	\$	<u>257,995</u>

**Note 5: Inventories**

At June 30, 2017, inventories were comprised of:

Nursery	\$	146,324
Downtown store		<u>12,778</u>
Total inventories	\$	<u>159,102</u>

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 6: Property and Equipment**

At June 30, 2017, property and equipment were comprised of:

Land	\$	2,298,498
Buildings		7,300,234
Improvements		876,764
Farm equipment		169,800
Office equipment		149,391
Furniture and equipment		48,894
Vehicles		1,040,067
Construction in progress		832,377
		<u>12,716,025</u>
Less accumulated depreciation and amortization		<u>(3,440,002)</u>
Property and equipment, net of accumulated depreciation and amortization	\$	<u>9,276,023</u>

**Note 7: Notes Payable**

At June 30, 2017, notes payable were comprised of the following:

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.	\$	185,935
Note payable to a bank, secured by a first deed of trust with principal and interest at 3.43% due in monthly installments of \$9,241 with a maturity date of October 2026.		1,823,183
Note payable to CA Health Facilities Financing, secured by a first deed of trust with principal and interest at 3.0% due in monthly installments of \$3,577 with a maturity date of May 2027.		365,154
Note payable to a bank, secured by a first deed of trust with principal and interest at 4.75% 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.		639,959
Notes payable to a financing company, secured by vehicles with principal and interest at 1.90% due in monthly installments of \$355 with a maturity date of July 2020.		51,077

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 7: Notes Payable (Continued)**

Notes payable to a financing company, secured by vehicles with principal and interest at 1.90% due in monthly installments of \$379 with a maturity date of March 2022.	\$ 82,728
Note payable to a financing company, secured by a vehicle with principal and interest at 1.90% due in monthly installments of \$518 with a maturity date of July 2020.	18,636
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.	<u>499,175</u>
	3,665,847
Less current portion	<u>(152,689)</u>
Notes payable, net of current portion	<u>\$ 3,513,158</u>

At June 30, 2017, principal maturities on notes payable were as follows:

<u>For the Year Ending June 30,</u>	
2018	\$ 152,689
2019	157,720
2020	161,100
2021	144,950
2022	143,728
Thereafter	<u>2,905,660</u>
Total	<u>\$ 3,665,847</u>

**Note 8: Net Assets**

At June 30, 2017, temporarily restricted net assets were available for the following purposes:

Time restricted forgivable loans	\$ 3,149,767
Purpose restricted grants	<u>1,536,825</u>
Temporarily restricted net assets	<u>\$ 4,686,592</u>

The Board of Directors has designated \$100,000 of 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, agency needs or financial conditions change.



**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 9: Operating Leases**

The Organization leases office space and facilities under seven non-cancellable lease agreements one of which expires on October 31, 2017, one on May 31, 2018, two on August 30, 2018, and three on November 30, 2019 . In addition, the Organization leases four copiers for their office locations with lease terms through July 2021.

At June 30, 2017, future minimum lease payments under these operating leases were as follows:

<u>For the Year Ending June 30,</u>	
2018	\$ 104,548
2019	50,126
2020	21,525
2021	3,660
2022	305
Total	<u>\$ 180,164</u>

During the year, the Organization also leased approximately 45 housing units that they lease on a month-to-month basis and generally rent out to clients.

Rent expense under these leases for the year ended June 30, 2017, was \$1,023,246.

**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 ten (10) years to fifty-five (55) years depending on the funder. 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.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2017**

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**Note 10: Commitments and Contingencies (Continued)**

Management has no intention of breaking the contract agreements. These amounts are included in temporarily restricted net assets until the restrictions are released and totaled \$3,149,767 at June 30, 2017.

Management expects the loan balances to be forgiven as follows:

<u>For the Year Ending June 30,</u>	
2018	\$ 27,674
2019	25,181
2020	22,480
2021	22,480
2022	22,480
Thereafter	<u>3,029,472</u>
Total	<u>\$ 3,149,767</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 to form a joint venture for the purpose of developing and operating approximately 34 permanent affordable housing units on the property for individuals with a mental health diagnosis. As part of the MOU, the Organization has agreed to bridge an estimated gap in funding of \$1,000,000 and has raised \$1,259,652 in cash and promises to give. If the funding cannot be obtained or any portion of the deal is not completed, the Organization could return funding received and not be liable for any additional costs.

**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, 2017 were \$166,537.

**Other Independent Auditors' 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 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 statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 20, 2017.

**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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**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.

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

Glenn Burdette Attest Corporation  
San Luis Obispo, California

November 20, 2017



**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**

We have audited Transitions-Mental Health Association's compliance with the types of compliance requirements described 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, 2017. Transitions-Mental Health Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Transitions-Mental Health Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Transitions-Mental Health Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Transitions-Mental Health Association's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Transitions-Mental Health 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, 2017.

**Board of Trustees**

**Transitions-Mental Health Association**

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**Report on Internal Control Over Compliance**

Management of Transitions-Mental Health Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Transitions-Mental Health Association’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Transitions-Mental Health Association’s internal control over compliance.

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

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

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

November 20, 2017

**Transitions-Mental Health Association**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Agency Number	Federal Expenditures
<b>US Department of Housing and Urban Development</b>			
passed through City of Santa Maria			
Community Development Block Grant/Entitlement Grants	14.218		\$ 64,056
Community Development Block Grant/Entitlement Grants	14.218	45248	7,000
Community Development Block Grant/Entitlement Grants	14.218	59680	9,500
			<u>80,556</u>
passed through County of San Luis Obispo			
Supportive Housing Program - Bordeaux - 15/16	14.235	CA1145L9D141403	45,208
Supportive Housing Program - Bordeaux - 16/17	14.235	CA1145L9D141504	84,031
Supportive Housing Program - North Coastal - 15/16	14.235	CA0739L9D141406	20,138
Supportive Housing Program - North Coastal - 16/17	14.235	CA0739L9D141507	50,648
Supportive Housing Program - 15/16	14.235	CA0740L9D141407	221,262
Supportive Housing Program - 16/17	14.235	CA1627L9D141600	24,417
Supportive Housing Program - South County - 15/16	14.235	CA1030L9D141403	28,961
Supportive Housing Program - South County - 16/17	14.235	CA1030L9D141504	37,740
Supportive Housing Program - North County - 15/16	14.235	CA1029L9D141404	15,041
Supportive Housing Program - North County - 16/17	14.235	CA1029L9D141505	25,156
			<u>552,602</u>
passed through County of San Luis Obispo			
Home Investment Partnership Program	14.239		<u>305,289</u>
Subtotal US Department of Housing and Urban Development			<u>938,447</u>
<b>US Department of Education</b>			
passed through State of California Department of Rehabilitation			
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	28552	162,287
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	29601	66,355
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	30063	41,865
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	29601	1,500
Subtotal US Department of Education			<u>272,007</u>
<b>US Department of Health and Human Services</b>			
passed through County of San Luis Obispo			
Foster Care-Title IV-E	93.658	95-6000939	152,943
passed through County of San Luis Obispo			
Adoption Assistance Program	93.659	95-6000939	85,150
Subtotal US Department of Health and Human Services			<u>238,093</u>
Total			<u>\$ 1,448,547</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, 2017**

**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, 2017, 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: Expenditures**

For new awards or modifications of existing awards after December 26, 2014, the expenditures reported in the SEFA follow the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-21, Cost Principles for Educational Institutions. The cost principles indicate that certain types of expenditures are not allowable and certain allowable costs are limited as to reimbursement.

The Organization did not have any expenditures to subrecipients for the year ended June 30, 2017,

**Note 3: Indirect Cost Rate**

The Association 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, 2016. The loan programs are also included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards at June 30, 2017.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant/Entitlement Grants	14.218	\$ 64,056
Home Investment Partnership Program	14.239	<u>305,289</u>
		<u>\$ 369,345</u>

**Transitions-Mental Health Association  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017**

**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 2 CFR section 200.516(a): **No.**
- (g) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000.**
- (h) Major Program(s):
- US Department of Housing and Urban Development: Supporting Housing Program (CFDA – 14.235)
- (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, 2016**  
**Year Ended June 30, 2017**

**Section IV: Status of Prior Year Findings and Questioned Costs**

None.