Transitions-Mental Health Association

Consolidated Financial Statements

Year Ended June 30, 2016

Transitions-Mental Health Association

Consolidated Financial Statements

Year Ended June 30, 2016

Table of Contents

	Page
Independent Auditors' Report	3-4
Consolidated Statement of Financial Position	5
Consolidated Statement of Activities	6
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	9-18
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*	20-21
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance required by the Uniform Guidance	22-23
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards	25
Schedule of Findings and Questioned Costs	26
Status of Prior Year Findings and Questioned Costs – June 30, 2015	27

GLENN BURDETTE
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, 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.

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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, 2016, 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 October 28, 2016, 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

October 28, 2016

Transitions-Mental Health Association

Consolidated Statement of Financial Position

June 30, 2016

Assets		
Current assets:		
Cash and cash equivalents	$	1,362,153
Grants receivable		1,515,050
Accounts receivable		21,477
Inventories		129,194
Prepaid expenses		241,727
Total current assets		3,269,601
Other assets:		
Property and equipment, net of accumulated depreciation and amortization		8,771,920
Total assets	$	12,041,521
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	225,911
Accrued payroll and related expenses		269,319
Accrued vacation		253,346
Accrued unemployment insurance		81,222
Other accrued liabilities		148,868
Notes payable, current portion		132,193
Total current liabilities		1,110,859
Long-term liabilities:		
Notes payable, net of current portion		3,013,641
Total liabilities		4,124,500
Net assets:		
Unrestricted:		
Board restricted		100,000
Undesignated		4,408,197
Temporarily restricted		3,408,824
Total net assets		7,917,021
Total liabilities and net assets	$	12,041,521

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

Transitions-Mental Health Association

Consolidated Statement of Activities

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and support:			
Federal grants	$ 980,914	$	$ 980,914
State and local grants	7,790,988	323,533	8,114,521
Contracts	661,667		661,667
Client rents	890,804		890,804
Contributions	200,707		200,707
Fundraising	147,731		147,731
Other revenue	9,174		9,174
Nursery revenue, net of cost of goods sold	270,231		270,231
Total revenues and support	10,952,216	323,533	11,275,749
Net assets released from restrictions	471,224	(471,224)	-
Expenses:			
Program services	9,609,537		9,609,537
Supporting services:			
General and administrative	1,233,803		1,233,803
Fundraising	57,899		57,899
Total expenses	10,901,239		10,901,239
Change in net assets	522,201	(147,691)	374,510
Net assets - beginning of year	3,985,996	3,556,515	7,542,511
Net assets - end of year	$ 4,508,197	$ 3,408,824	$ 7,917,021

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

Transitions-Mental Health Association

Consolidated Statement of Functional Expenses

Year Ended June 30, 2016

	Program Services	General and Administrative	Fundraising	Total
Advertising	$ 8,885	$ 364	$	$ 9,249
Bad debt expense	77,289			77,289
Building expense and interest	149,840			149,840
Depreciation and amortization	371,530			371,530
Dues and subscriptions	11,244	19,523		30,767
Employee benefits	834,176	94,301		928,477
Employer taxes	396,737	44,887		441,624
Equipment purchases	4,480			4,480
Fundraising			43,892	43,892
Honorarium	11,301			11,301
Insurance	74,631	4,054		78,685
Other expenses	57,439		11,174	68,613
Postage and printing	3,868	4,702	1,028	9,598
Professional fees	30,987	189,622		220,609
Recreation and client expenses	343,428			343,428
Rent	721,722	156,000		877,722
Repairs and maintenance	106,731	4,099		110,830
Salaries and wages	5,264,041	617,066		5,881,107
Subcontractors	155,685	12,000		167,685
Supplies	183,777	30,975	352	215,104
Taxes and licenses	7,732		1,453	9,185
Telephone	96,855	8,113		104,968
Transportation	187,606	8,092		195,698
Travel and training	81,285	28,202		109,487
Utilities	211,605			211,605
Worker's compensation insurance	216,663	11,803		228,466
Total	$ 9,609,537	$ 1,233,803	$ 57,899	$ 10,901,239

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

Transitions-Mental Health Association

Consolidated Statement of Cash Flows

Year Ended June 30, 2016

Cash flows from operating activities:		
Change in net assets		$ 374,510
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	$ 371,530	
Changes in operating assets and liabilities:		
Grants receivable	(184,191)	
Accounts receivable	2,069	
Inventories	(12,020)	
Prepaid expenses	(15,896)	
Accounts payable	13,258	
Accrued payroll and related expenses	22,513	
Accrued vacation	3,481	
Accrued unemployment insurance	(45,016)	
Other accrued liabilities	18,927	
Total adjustments		174,655
Net cash provided by operating activities		549,165
Cash flows from investing activities:		
Proceeds from maturity of certificate of deposit	504,899	
Purchase of property and equipment	(147,154)	
Net cash provided by investing activities		357,745
Cash flows from financing activities:		
Repayments on notes payable	(135,073)	
Net cash used in financing activities		(135,073)
Net increase in cash and cash equivalents		771,837
Cash and cash equivalents - beginning of year		590,316
Cash and cash equivalents - end of year		$ 1,362,153

Supplemental disclosures of cash flow information:	
Cash paid for interest during the year	$ 127,577
Non-cash transactions:	
Acquisition of long-term assets by issuing notes payable	$ 110,800

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

Transitions-Mental Health Association
Notes to Financial Statements
June 30, 2016

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.

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. The entity was formed in April 2011 for the purpose of holding and operating housing projects for the Organization's clients that have Mental Health Services Act funding. The entity 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. See further discussion in Note 10.

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.

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. 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, 2016.

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, 2016. Any bad debts in the future would be charged off as incurred.

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.

Note 2: Summary of Significant Accounting Policies (Continued)

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, 2016, 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, 2017. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after June 30, 2013, and by the California Franchise Tax Board for fiscal years ending on or after June 30, 2012.

Concentrations

Major Funding:
The Organization received grant funding from San Luis Obispo and Santa Barbara Counties, which accounted for approximately 57% of total revenues during the year ended June 30, 2016.

At June 30, 2016, there were two grantors that made up 84% of the grants receivable balance. In addition, there was one customer that made up 13% of the accounts 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, 2016, the Organization had cash balances in excess of the FDIC limit of $836,955.

Note 2: Summary of Significant Accounting Policies (Continued)

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: Grants Receivable

At June 30, 2016, grants receivable were comprised of:

San Luis Obispo County	$	902,722
Santa Barbara County		362,898
San Luis Obispo County Department of Planning and Building		96,024
San Luis Obispo County Department of Social Services		63,438
California Department of Rehabilitation		56,711
Other		33,257
Total grants receivable	$	1,515,050

Note 4: Inventories

At June 30, 2016, inventories were comprised of:

Nursery	$	116,296
Downtown store		12,898
Total inventories	$	129,194

Note 5: Property and Equipment

At June 30, 2016, property and equipment were comprised of:

Land	$	2,298,498
Buildings		7,289,499
Improvements		878,891
Farm equipment		159,018
Office equipment		149,391
Furniture and equipment		48,894
Vehicles		887,015
Other		6,948
Construction in progress		139,720
		11,857,874
Less accumulated depreciation and amortization		(3,085,954)
Property and equipment, net of accumulated depreciation and amortization	$	8,771,920

Note 6: Notes Payable

At June 30, 2016, 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 November 5, 2022.	$	191,036
Note payable to a bank, secured by a first deed of trust with principal and interest at 2.87% due in monthly installments of $1,874 with a maturity date of August 17, 2017.		360,939
Note payable to bank, secured by a first deed of trust with principal and interest at 4.25% due in monthly installments of $8,821 with a maturity date of April 2022.		1,449,292
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 1, 2027.		396,612
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. Balance of note is due September 16, 2024.		656,483

Note 6: Notes Payable (Continued)

Note payable to a financing company, secured by a vehicle with principal and interest at 1.90% due in monthly installments of $355 with a maturity date of July 30, 2020.	$	16,755
Note payable to a financing company, secured by a vehicle with principal and interest at 1.90% due in monthly installments of $355 with a maturity date of July 30, 2020.		16,755
Note payable to a financing company, secured by a vehicle with principal and interest at 1.90% due in monthly installments of $355 with a maturity date of July 30, 2020.		16,754
Note payable to a financing company, secured by a vehicle with principal and interest at 1.90% due in monthly installments of $355 with a maturity date of July 21, 2020.		16,755
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 30, 2020.		24,453
		3,145,834
Less current portion		(132,193)
Notes payable, net of current portion	$	3,013,641

At June 30, 2016, principal maturities on notes payable were as follows:

For the Year Ending June 30,		
2017	$	132,193
2018		472,919
2019		128,793
2020		131,892
2021		1,317,316
Thereafter		962,721
Total	$	3,145,834

Note 7: Net Assets

At June 30, 2016, temporarily restricted net assets were available for the following purposes:

Time restricted forgivable loans	$ 3,183,590
Purpose restricted grants	225,234
Temporarily restricted net assets	$ 3,408,824

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

Note 8: Operating Leases

The Organization leases office space and facilities under eight non-cancellable lease agreements one of which expires on August 30, 2016, one on November 30, 2016, two on May 31, 2017, one on June 30, 2017, one on October 31, 2017 and one on August 30, 2018. In addition, the Organization leases four copiers for their office locations with lease terms through July 2021.

At June 30, 2016, future minimum lease payments under these operating leases were as follows:

For the Year Ending June 30,	
2017	$ 202,396
2018	44,772
2019	10,634
2020	6,060
2021	305
Total	$ 264,167

During the year, the Organization also leased approximately 33 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, 2016, was $877,722.

Note 9: 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.

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 $3,183,590 at June 30, 2016.

Management expects the loan balances to be forgiven as follows:

For the Year Ending June 30,		
2017	$	32,208
2018		29,288
2019		25,181
2020		22,480
2021		22,480
Thereafter		3,051,953
Total	$	3,183,590

Note 10: 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, 2016 were $148,480.

Note 11: Subsequent Events

Events subsequent to June 30, 2016 have been evaluated through October 28, 2016, which is the date the financial statements were available to be issued.

On October 17, 2016, subsequent to year end, the Organization re-financed existing debt on their High Street property and paid off the debt on their Bridge Street property. At June 30, 2016, the balance on the Bridge Street and High Street properties was $360,939 and $1,449,292, respectively. The new note on the High Street property is $1,850,000 and matures on October 17, 2026. Monthly principal and interest payments are $9,241 with one irregular payment due on October 17, 2026 estimated to be $1,303,718. The interest rate is variable based upon the Federal Reserve Index plus 2.4% less a preferred rate reduction of .25% and was 3.25% at October 17, 2016.

Other Independent Auditors' Reports

GLENN BURDETTE
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, 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 October 28 2016.

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 out 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.

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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.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

October 28, 2016

GLENN BURDETTE
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016. 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, 2016.

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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 charges 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

October 28, 2016

Transitions-Mental Health Association
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Agency Number	Federal Expenditures
Major Program:			
US Department of Health and Human Services			
passed through San Luis Obispo County			
Foster Care-Title IV-E	93.658	95-6000939	$ 198,106
Non-Major Programs:			
US Department of Housing and Urban Development			
passed through San Luis Obispo County			
Supportive Housing Program - Bordeaux 14/15	14.235	CA1145L9D141302	32,974
Supportive Housing Program - Bordeaux 15/16	14.235	CA1145L9D141403	80,228
Supportive Housing Program - North Coastal 14/15	14.235	CA0739L9D141305	25,872
Supportive Housing Program - North Coastal 15/16	14.235	CA0739L9D141406	42,562
Supportive Housing Program - 15/16	14.235	CA0740L9D141407	232,596
Supportive Housing Program - 16/17	14.235	CA0740L9D141508	25,517
Supportive Housing Program - South County	14.235	CA1030L9D141403	9,986
			449,735
US Department of Health and Human Services			
passed through San Luis Obispo County			
Adoption Assistance Program	96.659	95-6000939	104,844
Department of Education			
passed through State of California Department of Rehabilitation			
State Vocational Rehabilitation Services Program	84.126A	28552	153,681
State Vocational Rehabilitation Services Program (COOP)	84.126A	29601	62,892
US Department of Housing and Urban Development			
passed through City of Santa Maria			
Community Development Block Grant	14.218	40497	4,656
Community Development Block Grant	14.218	18463	7,000
			782,808
Total			$ 980,914

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, 2016

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, 2016, 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, 2016,

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.

Transitions-Mental Health Association
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I: Summary of Auditors' Results

Financial Statements:

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

(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: **Unqualified.**

(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: Foster Care Title IV-E (CFDA – 93.658)

(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, 2015

Year Ended June 30, 2016

Section IV: Status of Prior Year Findings and Questioned Costs

None.