Transitions-Mental Health Association

Audited Consolidated Financial Statements

Year Ended June 30, 2024

GLENN BURDETTE

Transitions-Mental Health Association

Consolidated Financial Statements

Year Ended June 30, 2024

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Independent Auditors' Report

To the Board of Directors of
Transitions-Mental Health Association

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Transitions-Mental Health Association (a nonprofit organization) and its subsidiary, which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Transitions-Mental Health Association and subsidiary as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Transitions-Mental Health Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2024, the Organization adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to this matter.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Transitions-Mental Health Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Transitions-Mental Health Association's internal control. Accordingly, no such opinion is expressed.

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2025 on our consideration of Transitions-Mental Health Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Transitions-Mental Health Association's internal control over financial reporting or our compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transitions-Mental Health Association's internal control over financial reporting and compliance.

GLENN BURDETTE ATTEST CORPORATION

Glenn Burdette Attest Corporation
San Luis Obispo, California

March 7, 2025

Transitions-Mental Health Association

Consolidated Statement of Financial Position

June 30, 2024

Assets		
Current assets:		
Cash	$	2,837,018
Grants and contracts receivable		3,595,254
Allowance for credit losses		(4,469)
Other receivables		4,223
Inventories		119,545
Prepaid expenses		166,378
Deposits		168,188
Total current assets		6,886,137
Other assets:		
Operating lease right-of-use assets		559,541
Property and equipment, net of accumulated depreciation and amortization		15,037,376
Total assets	$	22,483,054
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	399,400
Accrued payroll and related expenses		531,440
Accrued vacation		414,686
Other accrued liabilities		74,684
Deferred revenue		163,455
Client deposits		133,481
Operating lease liabilities, current portion		284,100
Notes payable, current portion, net of unamortized debt issuance costs		1,118,068
Total current liabilities		3,119,314
Long-term liabilities:		
Operating lease liabilities, net of current portion		282,435
Notes payable, net of current portion and unamortized debt issuance costs		8,339,023
Long-term accrued interest		688,908
Total long-term liabilities		9,310,366
Total liabilities		12,429,680
Net assets:		
Without donor restrictions		7,939,009
With donor restrictions		2,114,365
Total net assets		10,053,374
Total liabilities and net assets	$	22,483,054

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

Transitions-Mental Health Association

Consolidated Statement of Activities

Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Federal grants	$ 2,195,210		$ 2,195,210
State and local grants	993,213	70,000	1,063,213
Contract income	13,808,472		13,808,472
Client rents	1,866,365		1,866,365
Contributions	294,736	261,947	556,683
Contributions of nonfinancial assets	132,071		132,071
Fundraising events, net of cost of direct benefit to donors of $21,360	40,179		40,179
Interest income	20,837		20,837
Other revenue	118,443		118,443
Nursery revenue, net of cost of goods sold	264,374		264,374
Gain on disposal of property	815,006		815,006
Total revenues and support	20,548,906	331,947	20,880,853
Net assets released from restrictions	490,419	(490,419)	-
Expenses:			
Program services	16,491,086		16,491,086
Supporting services:			
General and administrative	2,676,910		2,676,910
Fundraising	181,010		181,010
Total expenses	19,349,006		19,349,006
Change in net assets	1,690,319	(158,472)	1,531,847
Net assets - beginning of year	6,853,966	4,211,805	11,065,771
Prior year restatement	(605,276)	(1,938,968)	(2,544,244)
Net assets - beginning of the year, restated	6,248,690	2,272,837	8,521,527
Net assets - end of year	$ 7,939,009	$ 2,114,365	$ 10,053,374

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

Transitions-Mental Health Association

Consolidated Statement of Functional Expenses

Year Ended June 30, 2024

	Program Services							
	Housing Services	**Community Wellness and Education**	**Mental Health Treatment Services**	**Vocational Services**	**Total Program Services**	**General and Administrative**	**Fundraising**	**Total**
Client expenses	$ 59,634	$ 8,145	$ 218,168	$ -	$ 285,947	$ -	$ -	$ 285,947
Cost of goods sold	-	-	-	209,988	209,988	-	-	209,988
Credit and bank charges	30	-	-	10,060	10,090	3,371	2,763	16,224
Depreciation and amortization	227,795	88,132	77,863	26,899	420,689	109,153	903	530,745
Dues and subscriptions	20,727	84,430	24,077	14,253	143,487	129,723	8,134	281,344
Employee meals	836	2,811	5,393	1,677	10,717	14,460	275	25,452
Fundraising	-	-	-	-	-	-	26,117	26,117
Furniture and equipment	65,949	7,747	39,063	3,677	116,436	13,567	17	130,020
Groceries	51,541	19,126	17,356	-	88,023	-	-	88,023
Insurance	31,202	21,559	49,712	14,119	116,592	27,231	1,269	145,092
Interest	101,626	36,861	32,566	11,250	182,303	130,075	378	312,756
Lease expense	1,692,528	47,880	293,400	17,916	2,051,724	11,576	-	2,063,300
Marketing and public relations	311	5,450	8,136	2,010	15,907	13,447	7,104	36,458
Office supplies and program expenses	38,133	44,643	57,998	9,224	149,998	13,595	1,967	165,560
Other	2,481	7,972	11,152	6,711	28,316	33,592	5,750	67,658
Printed materials and postage	16,567	12,200	18,073	1,415	48,255	7,938	13,872	70,065
Professional fees	39,371	49,234	114,920	7,478	211,003	437,186	5,950	654,139
Property development expenses	57,660	-	-	-	57,660	2,437	-	60,097
Repairs and maintenance	118,443	23,684	57,922	14,221	214,270	9,271	62	223,603
Retirement plan advisory fees	-	-	-	-	-	10,455		10,455

Transitions-Mental Health Association

Consolidated Statement of Functional Expenses

Year Ended June 30, 2024

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	Program Services							
	Housing Services	Community Wellness and Education	Mental Health Treatment Services	Vocational Services	Total Program Services	General and Administrative	Fundraising	Total
Salaries, wages, and related expenses	$ 1,931,770	$ 2,494,750	$ 5,278,846	$ 1,566,648	$ 11,272,014	$ 1,635,322	$ 126,352	$ 13,033,688
Staff development and training	3,437	44,459	36,886	8,554	93,336	28,260	188	121,784
Student loan assistance program	17,400	7,159	15,633	-	40,192	2,386	-	42,578
Taxes and licenses	31,065	1,034	8,500	-	40,599	2,631		43,230
Technology	20,529	21,686	65,213	7,261	114,689	13,517	-	128,206
Telecommunication	52,483	47,502	76,824	23,612	200,421	14,858	884	216,163
Transportation	48,882	22,123	110,463	20,227	201,695	9,786	340	211,821
Utilities	236,770	22,789	102,779	14,385	376,723	3,073	45	379,841
	$ 4,867,170	$ 3,121,376	$ 6,720,943	$ 1,991,585	$ 16,701,074	$ 2,676,910	$ 202,370	$ 19,580,354
Less expenses included with revenues on the statement of activities:								
Cost of goods sold				(209,988)	(209,988)			(209,988)
Cost of direct benefit to donors							(21,360)	(21,360)
	-	-	-	(209,988)	(209,988)	-	(21,360)	(231,348)
Total expenses included in the expense section on the statement of activities	$ 4,867,170	$ 3,121,376	$ 6,720,943	$ 1,781,597	$ 16,491,086	$ 2,676,910	$ 181,010	$ 19,349,006

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

Transitions-Mental Health Association
Consolidated Statement of Cash Flows
Year Ended June 30, 2024

Cash flows from operating activities:		
Change in net assets		$ 1,531,847
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	$ 530,745	
Operating lease expense	295,734	
Amortization of debt issuance costs	(2,417)	
Gain on disposal of property	(815,006)	
Changes in operating assets and liabilities:		
Grants and contracts receivable	(675,277)	
Allowance for credit losses	1,062	
Other receivables	17,005	
Inventories	(21,275)	
Prepaid expenses	78,097	
Deposits	41,957	
Accounts payable	133,905	
Accrued payroll and related expenses	69,179	
Accrued vacation	12,266	
Other accrued liabilities	(39,256)	
Deferred revenue	145,706	
Client deposits	2,127	
Operating lease liabilities	(294,755)	
Long-term accrued interest	88,172	
Total adjustments		(432,031)
Net cash provided by operating activities		1,099,816
Cash flows from investing activities:		
Proceeds from sale of property and equipment	1,082,302	
Purchase of property and equipment	(3,544,179)	
Net cash used in investing activities		(2,461,877)
Cash flows from financing activities:		
Borrowings on notes payable	3,310,335	
Repayments on notes payable	(1,166,067)	
Net cash provided by financing activities		2,144,268
Net increase in cash		782,207
Cash - beginning of year		2,054,811
Cash - end of year		$ 2,837,018

Supplemental disclosures of cash flow information:	
Cash paid for interest during the year	$ 224,584
Non-cash transactions:	
Issuance of notes payable in exchange for property and equipment	$ 74,305
ROU assets obtained in exchange for new lease liabilities	$ 149,586

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

Transitions-Mental Health Association
Notes to Consolidated Financial Statements
June 30, 2024

Note 1: Organization

General

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

In April 2011, the Organization formed the SLO Transitions, LLC (SLOT, LLC), a single member limited liability company in which the Organization is the sole member, and which has a fiscal year end of December 31. SLOT, LLC was formed for the purpose of holding and operating housing projects for the Organization's clients that have Mental Health Services Act funding. SLOT, LLC was established to remodel and operate the Nipomo Street Studios and entered into an April 2014 property management agreement with the Organization to manage the property. As a result of the construction funding, SLOT, LLC has a residual receipts loan which is described further in Note 7.

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

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

Description of Major Programs

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

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

Note 1: Organization (Continued)

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

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

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Organization and its wholly owned subsidiary, SLOT, LLC. All significant intercompany balances and transactions have been eliminated in consolidation. There were no intervening events due to differing financial reporting periods that materially affected financial position or the change in net assets requiring disclosure at June 30, 2024.

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. The Organization had no cash equivalents at June 30, 2024.

Change in Accounting Principle

Effective July 1, 2023, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modified the measurement of expected credit losses on certain financial instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in Topic 326 are grants and contracts receivable. The adoption of Topic 326 did not have an impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

Note 2: Summary of Significant Accounting Policies (Continued)

Grants and Contracts Receivable and Allowance for Credit Losses

The Organization's receivables are primarily derived from government grants and contracts. As of June 30, 2024, grants and contracts receivable were $3,590,785. As of July 1, 2023, grants and contracts receivable were $2,916,570.

At each balance sheet date, the Organization recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist. The allowance estimate is derived from a review of the Organization's historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and other factors deemed relevant by the Organization. The Organization believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Organization's portfolio segments have remained constant since the Organization's inception.

The Organization writes off receivables when there is information that indicates the funder is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the Organization's accounting policy election.

Inventories

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

Property and Equipment

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

Net Assets

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

Note 2: Summary of Significant Accounting Policies (Continued)

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may from time to time designate a portion of this asset class for specific projects or activities. At June 30, 2024, there were Board-designated net assets in the amount of $100,000 for a building reserve fund, intended to support future major repairs on owned properties. Net asset designations by the Board of Directors may be re-designated at the discretion of the Board as circumstances, Organizational needs, or financial conditions change.

Net Assets With Donor Restrictions
Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

A portion of the Organization's revenue is derived from cost-reimbursable or rate-based federal, state, and county contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. For cost-reimbursed grants and contracts, amounts received are recognized as revenue when expenditures have been incurred in compliance with specific contract or grant provisions. For rate-based contracts, a rate is set by the government agency and paid to the Organization based upon the services provided to the client. Revenue is recognized when the services are provided on a monthly basis.

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

Note 2: Summary of Significant Accounting Policies (Continued)

The Organization recognizes contributions and certain grants when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Consequently, at June 30, 2024, grants of $163,455 have not been recognized in the accompanying statement of activities because the conditions on which they depend have not yet been met.

Leases

The Organization leases certain office space and residential housing for use in its programs. The determination of whether an arrangement is a lease is made at the lease's inception. Under FASB ASU 2016-02, *Leases* (Topic 842), a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. The Organization has elected the practical expedient for short-term leases with terms of 12 months or less. For short-term leases, the Organization recognizes the lease payments in the income statement on a straight-line basis over the term of the lease.

For leases with a lease term greater than one year, the Organization recognizes an asset for its right to use the underlying leased item, and a lease liability for the corresponding lease obligation. Operating leases with a duration greater than one year are included in right-of-use assets, current portion of operating lease liabilities, and operating lease liabilities, net of current portion, on the Organization's statement of financial position on June 30, 2024. Right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, in accordance with its elected policy, the Organization uses the risk-free discount rate.

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

Income Taxes

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

Management has determined the Organization is subject to unrelated business income tax and has filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Contributions of Nonfinancial Assets

The Organization receives donations of time and services from members of the community and volunteers which are recorded in the financial statements if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Additionally, the Organization occasionally receives donations of nonfinancial assets. Donated fixed assets, materials, and supplies are utilized directly by the Organization in its programs and are valued at their appraised values at the time of the bequest. Donated professional services are utilized in the Organization's management and administration and are valued at the standard hourly rates charged for those services. During the year ended June 30, 2024, the Organization received contributed supplies in the amount of $132,071. There were no donor restrictions on this contribution, and the supplies were utilized in the Organization's programs.

Litigation

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

Functional Expense Allocations

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributable to both program services and supporting activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Accordingly, certain costs have been

Note 2: Summary of Significant Accounting Policies (Continued)

allocated among the programs and supporting services benefited based upon square footage of the facility and salary allocations depending on the specific expense.

Concentrations

Major Funding:
The Organization received grant funding from San Luis Obispo and Santa Barbara Counties, which accounted for approximately 76% of total revenues and support during the year ended June 30, 2024.

At June 30, 2024, these two grantors made up 93% of grants and contracts receivable.

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, 2024, the Organization had cash balances in excess of the FDIC limit of $1,762,151. To date the Organization has not had any losses associated with their cash deposits.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3: Liquidity and Availability

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

Cash and cash equivalents	$ 2,837,018
Grants and contracts receivable, net of allowance	3,595,254
Other receivables	4,223
Less: Board-designated net assets	(100,000)
Less: net assets with purpose restrictions	(1,156,801)
	$ 5,179,694

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in money market funds. Occasionally, the Board designates a portion of any operating surplus to its building reserve. Such designated funds are not available for general expenditures. At June 30, 2024, the Board-designated building reserve totaled $100,000.

Note 4: Grants and Contracts Receivable

At June 30, 2024, grants and contracts receivable were comprised of:

San Luis Obispo County	$ 2,498,384
Santa Barbara County	850,543
CA Department of Rehabilitation	50,250
Other	200,546
Allowance for credit losses	(4,469)
Grants and contracts receivable, net of allowance	$ 3,595,254

Note 5: Inventories

At June 30, 2024, inventories were comprised of:

Nursery	$ 98,110
Downtown store	21,435
Total inventories	$ 119,545

Note 6: Property and Equipment

At June 30, 2024, property and equipment were comprised of:

Land	$ 5,636,850
Buildings	11,532,134
Improvements	1,256,062
Farm equipment	178,175
Office equipment	93,743
Furniture and equipment	47,867
Vehicles	1,712,645
Software	41,972
Construction in progress	210,666
	20,710,114
Less accumulated depreciation and amortization	(5,672,738)
Property and equipment, net of accumulated depreciation and amortization	$ 15,037,376

Depreciation and amortization expense for the year ended June 30, 2024 was $530,745.

Note 7: Notes Payable

At June 30, 2024, notes payable were comprised of the following:

	Principal	Unamortized Debt Issuance Costs	Total
Note payable to a bank, secured by a first deed of trust with principal and interest at 3.68% due in monthly installments of $9,241 with a maturity date of October 2026.	$ 1,463,284		$ 1,463,284
Note payable to Department of Housing and Community Development, secured by a first deed of trust with 3.00% simple interest per annum. Note is payable in residual receipts installments, with all unpaid principal and accrued interest amounts due at the maturity in November 2078.	1,493,335		1,493,335
Note payable to California Housing Finance Agency, secured by a first deed of trust with 3.00% simple interest per annum. Note is payable in residual receipts installments, with all unpaid principal and accrued interest amounts due at the maturity in June 2032.	1,943,508		1,943,508
Note payable to CA Health Facilities Financing, secured by a first deed of trust with principal and interest at 2.00% due in monthly installments of $9,308 with a maturity date of October 2043.	1,789,775	(22,136)	1,767,639
Note payable to CA Health Facilities Financing, secured by a first deed of trust with principal and interest at 3.00% due in monthly installments of $3,577 with a maturity date of May 2027.	119,738		119,738
Note payable to a bank, secured by a first deed of trust with principal and interest at 5.61% due in monthly installments of $3,917 for 60 months and 59 additional principal and interest payments of $4,270 at 5.78% interest. Note matures September 2024.	512,180		512,180
Note payable to a bank, secured by a first deed of trust with principal and interest at 3.95% due in monthly installments of $2,853 with a maturity date of June 2031.	498,797		498,797
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.	411,027		411,027
Note payable to a bank, secured by a first deed of trust with principal and interest at 5.00% due in monthly installments of $4,390 with a maturity date of June 2032.	785,336	(12,427)	772,909

Note 7: Notes Payable (Continued)

	Principal	Unamortized Debt Issuance Costs	Total
Note payable to McAdams Family Trust, secured by a first deed of trust with principal and interest at 5%, due in interest only monthly installments of $1,000, with balance and accrued interest due in July 2025.	$ 370,000		$ 370,000
Note payable to a bank, secured by two vehicles with principal and interest at 2.99% due in monthly installments of $639 with a maturity dates of August 2026 and September 2027.	15,832		15,832
Note payable to a bank, secured by a vehicle with principal and interest at 7.38% due in monthly installments of $558 with a maturity date of December 2026.	14,537		14,537
Note payable to a bank, secured by a vehicle with principal and interest at 5.75% due in monthly installments of $619 with a maturity date of July 2029.	32,110		32,110
Note payable to a bank, secured by a vehicle with principal and interest at 4.75% due in monthly installments of $793 with a maturity date of July 2029.	42,195		42,195
	9,491,654	(34,563)	9,457,091
Less current portion	(1,120,771)	2,703	(1,118,068)
Notes payable, net of current portion	$ 8,370,883	$ (31,860)	$ 8,339,023

At June 30, 2024, principal maturities on notes payable were as follows:

For the Year Ending June 30,	Principal	Debt Issuance Costs	Total
2025	$ 1,120,771	$ (2,703)	$ 1,118,068
2026	223,072	(2,703)	220,369
2027	1,544,438	(2,703)	1,541,735
2028	134,211	(2,703)	131,508
2029	136,358	(2,703)	133,655
Thereafter	6,332,804	(21,048)	6,311,756
Total	$ 9,491,654	$ (34,563)	$ 9,457,091

One of the notes payable is subject to a loan covenant with the lender for a minimum debt service coverage ratio. At June 30, 2024, the Organization was in compliance with that covenant.

Note 8: Designations and Restrictions on Net Assets

At June 30, 2024, the Organization had the following net assets with donor restrictions:

Purpose restrictions:		
TMHA Studios	$	182,546
AFDC		181,617
Growing Grounds FSM		158,226
Santa Barbara programs		105,667
Garner Homeless Fund		87,807
Growing Grounds enterprise		84,175
YTP programs		66,329
Nipomo/Pacific COSR		54,652
Nipomo/Pacific replacement reserve		49,410
Other		186,372
Time-restricted for future periods:		
Forgivable loans		957,564
	$	2,114,365

At June 30, 2024, the Organization had the following net assets without donor restrictions:

Undesignated	$	7,839,009
Board designated for building reserves		100,000
	$	7,939,009

Note 9: Leases

The Organization is party to four lease agreements for office space and residential housing that are classified as operating leases under Topic 842. These leases expire through March 2027. As of June 30, 2024, the value of the Organization's ROU asset for these leases $559,541, and the related lease liability totaled $566,535.

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

Quantitative Disclosures

Lease expense for the year ended June 30, 2024 was as follows:

Operating lease expense	$	295,734
Short-term lease expense		1,767,566
Total lease expense	$	2,063,300

Note 9: Leases (Continued)

Other required information for operating leases for the year ended June 30, 2024 is as follows:

Operating cash flows from operating leases	$	294,755
ROU assets obtained in exchange for new operating lease liabilities	$	149,586
Weighted-average remaining lease term in years for operating leases		2.15
Weighted-average discount rate for operating leases		3.93%

Future minimum lease payments on operating leases as of June 30, 2024 were:

For the year ended June 30,		
2025	$	284,100
2026		250,246
2027		55,056
Total undiscounted cash flows		589,402
Less: present value discount		(22,867)
Total lease liabilities	$	566,535

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 has entered into agreements with different governmental funding sources to make improvements to the Organization’s housing facilities. In accordance with the provisions of these funding 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 repayment is due back to the funding source unless the Organization breaks the agreement. 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 funding amounts are included in net assets with donor restrictions until the restrictions are released and totaled $957,564 at June 30, 2024.

Note 10: Commitments and Contingencies (Continued)

Management expects the funding amounts to be forgiven as follows:

For the Year Ending June 30,		
2025	$	18,699
2026		17,500
2027		6,076
2028		250,000
Thereafter		665,289
Total	$	957,564

Bishop Street Studios:
In April 2014, the Organization entered into a no obligation option agreement with the County of San Luis Obispo to purchase certain property and easements for a purchase price of $100 with a restrictive covenant that the property be used for affordable housing for the mentally disabled population. In May 2016, the Organization entered into a Memorandum of Understanding (MOU) with Housing Authority of the City of San Luis Obispo (HASLO) to form a limited partnership under a joint venture agreement for the purpose of developing and operating approximately 34 permanent affordable housing units on the property for individuals with a mental health diagnosis. HASLO and the Organization each own .0045% of the limited partnership, Bishop Street Studios, LP (BSS, LP) and are general partners. The remaining 99.99% is owned by the investment limited partner and provides tax credits to the limited partners over a 15-year period. At the end of the 15-year period the general partners will have the right to buy the project at a pre-established formula from the partnership. The facility was completed in September 2019, and the Organization is currently operating it in accordance with the original agreement.

Note 11: Retirement Plan

The Organization maintains a defined contributory retirement plan for its employees which allows participants to make tax deferred investment contributions. The plan qualifies under the provisions of Section 403(b) of the Internal Revenue Code. The Organization matches up to 5% of employee contributions. Employer contributions for the year ended June 30, 2024 were $369,138.

Note 12: Prior Year Restatement

During the year ended June 30, 2024, the Organization became aware that its 2012 housing loan for the Nipomo Street Studios is not a forgivable loan as originally understood and must be paid back by the Organization. This loan was obtained from the California Housing Finance Agency in the amount of $1,943,508, with an original maturity of June 2032, no monthly debt service, and simple interest accruing at 3% per annum. The Organization has recorded a prior year restatement in the accompanying financial statements to reclassify the loan balance out of beginning

Note 12: Prior Year Restatement (Continued)

net assets with donor restrictions and into long-term liabilities as a note payable, as well as a prior year restatement to decrease beginning net assets and increase accrued interest payable for interest due to date. The loan is subject to residual receipts installment payments when operationally applicable. As of June 30, 2024, no residual receipts payments had yet been made on the loan. The first payment, calculated and due for the Nipomo Street Studios operational year ended June 30, 2024, was subsequently paid by the Organization in November 2024.

Note 13: Subsequent Events

Events subsequent to June 30, 2024 have been evaluated through March 7, 2025, which is the date the financial statements were available to be issued.

In January 2025 the Organization sold its property on Palm Street in San Luis Obispo and paid off the related mortgage in its entirety. As of June 30, 2024, the unpaid principal balance of that mortgage was $785,336.

Other Reports

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Transitions-Mental Health Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Transitions-Mental Health Association (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 7, 2025.

Report on Internal Control Over Financial Reporting

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

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

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

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Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and do not provide an opinion of the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

March 7, 2025