

**Transitions-Mental Health Association**

**Consolidated Financial Statements**

**Year Ended June 30, 2021**

**Transitions-Mental Health Association  
Consolidated Financial Statements  
Year Ended June 30, 2021**

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## Independent Auditors' Report

To the Board of Directors of  
Transitions-Mental Health Association

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Transitions-Mental Health Association (a nonprofit organization) and its subsidiary, which comprise the consolidated statement of financial position as of June 30, 2021, 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.

#### SAN LUIS OBISPO

1150 Palm Street  
San Luis Obispo, CA 93401  
p 805 544 1441  
f 805 544 4351

#### PASO ROBLES

102 South Vine Street, Ste. A  
Paso Robles, CA 93446  
p 805 237 3995  
f 805 239 9332

#### SANTA MARIA

2222 South Broadway, Ste. A  
Santa Maria, CA 93454  
p 805 922 4010  
f 805 922 4286

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, 2021, 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 January 18, 2022, 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**

San Luis Obispo, California

January 18, 2022

**Transitions-Mental Health Association**  
**Consolidated Statement of Financial Position**  
**June 30, 2021**

**Assets**

**Current assets:**

Cash and cash equivalents	\$ 2,573,621
Grants receivable	2,119,656
Promises to give, current portion, net of allowance	19,872
Accounts receivable	22,096
Inventories	107,545
Prepaid expenses	<u>322,038</u>
Total current assets	5,164,828

**Other assets:**

Property and equipment, net of accumulated depreciation and amortization	<u>10,778,665</u>
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Total assets	<u><u>\$ 15,943,493</u></u>
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**Liabilities and Net Assets**

**Current liabilities:**

Accounts payable	\$ 254,309
Accrued payroll and related expenses	411,019
Accrued vacation	375,184
Accrued unemployment insurance	48,220
Other accrued liabilities	195,300
Deferred revenue	30,033
Notes payable, current portion	<u>202,334</u>
Total current liabilities	<u>1,516,399</u>

**Long-term liabilities:**

Notes payable, net of current portion	4,444,303
Paycheck Protection Program loan	<u>702,965</u>
Total long-term liabilities	<u>5,147,268</u>

Total liabilities	<u>6,663,667</u>
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**Net assets:**

Without donor restrictions	5,662,826
With donor restrictions	<u>3,617,000</u>
Total net assets	<u>9,279,826</u>

Total liabilities and net assets	<u><u>\$ 15,943,493</u></u>
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*The accompanying notes are an integral part of these financial statements.*

**Transitions-Mental Health Association**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restricted</u>	<u>Total</u>
<b>Revenues and support:</b>			
Federal grants	\$ 1,582,225	\$	\$ 1,582,225
State and local grants	161,831	47,500	209,331
Contract income	10,812,373		10,812,373
Client rents	1,394,314		1,394,314
Contributions	262,521	190,690	453,211
Fundraising events, net of direct costs of \$917	26,616		26,616
Interest income	1,283		1,283
Other revenue	44,488		44,488
Nursery revenue, net of cost of goods sold	368,095		368,095
Total revenues and support	<u>14,653,746</u>	<u>238,190</u>	<u>14,891,936</u>
Net assets released from restrictions	<u>109,747</u>	<u>(109,747)</u>	<u>-</u>
<b>Expenses:</b>			
Program services	13,140,863		13,140,863
Supporting services:			
General and administrative	1,497,249		1,497,249
Fundraising	106,430		106,430
Total expenses	<u>14,744,542</u>		<u>14,744,542</u>
Change in net assets	<u>18,951</u>	<u>128,443</u>	<u>147,394</u>
<b>Net assets - beginning of year</b>	5,643,875	3,488,557	9,132,432
<b>Net assets - end of year</b>	<u>\$ 5,662,826</u>	<u>\$ 3,617,000</u>	<u>\$ 9,279,826</u>

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

**Transitions-Mental Health Association**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2021**

	Program Services						Total
	Housing Services	Community Wellness and Education	Mental Health Treatment Services	Vocational Services	General and Administrative	Fundraising	
Advertising and pre-employment	\$ 5,196	\$ 2,823	\$ 2,859	\$ 2,601	\$ 1,432	\$	\$ 14,911
Client expenses	131,917	35,485	76,882	790	5,761	9,138	259,973
Computers and information technology	9,046	36,216	95,096	4,685	18,121	637	163,801
Contracted employees	2,925	10,075	160,663	35,486	10,715		219,864
Credit card fees				9,828		2,419	12,247
Depreciation and amortization	269,413	45,836	60,532	25,609	27,904	1,167	430,461
Dues and subscriptions	3,376	11,432	4,455	930	37,280	6,278	63,751
Fundraising						917	917
Furniture and equipment	41,360		6,329	837			48,526
Insurance	33,172	14,240	34,653	9,544	17,781	867	110,257
Interest	5,233	39,446	41,288	14,014	69,361	3,795	173,137
Marketing and public relations	4,423	7,974	260	3,924	9,134		25,715
Occupancy fee	50,317	12,346	17,693	4,386	21,709	1,188	107,639
Office supplies	22,771	17,429	42,632	9,226	12,439	941	105,438
Other expenses	26,710	443	1,398	118	956	9,724	39,349
Postage and printing	554	5,361	4,991	1,607	10,819	12,100	35,432
Professional fees	27,013	11,826	42,171	1,139	248,790	330	331,269
Program supplies	41,880	34,139	10,481	717	1,429	390	89,036
Rent	1,409,598	32,866	197,782	16,560			1,656,806
Rent subsidies	3,141						3,141
Repairs and maintenance	153,954	15,020	18,665	9,802	1,975		199,416
Salaries, wages, and related expenses	2,346,595	1,781,489	3,723,227	991,869	977,088	55,626	9,875,894
Staff development and training	10,486	11,980	55,959	970	4,526	1,198	85,119
Stipends		10,313				500	10,813
Taxes and licenses				347	2,346		2,693
Telephone	58,792	29,807	63,627	16,424	8,378	518	177,546
Transportation	72,352	13,435	95,463	28,544	8,805	114	218,713
Utilities	248,955	12,050	9,979	12,611			283,595
Total expenses by function	4,979,179	2,192,031	4,767,085	1,202,568	1,497,249	107,347	14,745,459
Less expenses included with revenues on the statement of activities:							
Direct costs of fundraising						(917)	(917)
Total expenses included in the expense section on the statement of activities	<u>\$ 4,979,179</u>	<u>\$ 2,192,031</u>	<u>\$ 4,767,085</u>	<u>\$ 1,202,568</u>	<u>\$ 1,497,249</u>	<u>\$ 106,430</u>	<u>\$ 14,744,542</u>

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

**Transitions-Mental Health Association**  
**Consolidated Statement of Cash Flows**  
**Year Ended June 30, 2021**

<b>Cash flows from operating activities:</b>		
Change in net assets		\$ 147,394
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	\$ 430,381	
Changes in operating assets and liabilities:		
Grants receivable	338,085	
Promises to give, net of allowance	26,362	
Accounts receivable	2,144	
Inventories	2,971	
Prepaid expenses	(9,509)	
Accounts payable	12,896	
Accrued payroll and related expenses	38,253	
Accrued vacation	(2,376)	
Accrued unemployment insurance	(73,648)	
Other accrued liabilities	6,421	
Deferred revenue	28,375	
Total adjustments	<u>800,355</u>	
Net cash provided by operating activities		<u>947,749</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of property and equipment	30,800	
Purchase of property and equipment	<u>(799,162)</u>	
Net cash used in investing activities		(768,362)
<b>Cash flows from financing activities:</b>		
Borrowings on notes payable	540,000	
Repayments on notes payable	<u>(181,422)</u>	
Net cash provided by financing activities		<u>358,578</u>
Net increase in cash and cash equivalents		537,965
<b>Cash and cash equivalents - beginning of year</b>		<u>2,035,656</u>
<b>Cash and cash equivalents - end of year</b>		<u>\$ 2,573,621</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest during the year		\$ 173,136

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



**Transitions-Mental Health Association**  
**Notes to Financial Statements**  
**June 30, 2021**

**Note 1: Organization**

**General**

The Transitions-Mental Health Association (Organization) was organized in 1979 as a California Non-Profit Public Benefit Corporation. The Organization is dedicated to providing quality services to youth and adults in San Luis Obispo and Santa Barbara counties. Its goal is to design, develop and operate programs that give opportunities to psychiatrically disabled adults, at-risk youth and emotionally needy children. The Organization strives to help them attain their highest level of personal, educational and social functioning.

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

The Organization operates 35 programs at over 57 locations that reach 5,000 people and 1,500 families in San Luis Obispo and North Santa Barbara counties. The emphasis of the Organization's many services is to teach vital independent living skills and build a framework for community re-entry through personal empowerment and hands-on experience. The Organization is dedicated to providing housing, employment, case management and life-skills support to teens and adults with mental illness; and support, resources and education for their loved ones.

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

**Description of Major Programs**

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

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

## **Transitions-Mental Health Association**

### **Notes to Financial Statements**

**June 30, 2021**

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#### **Note 1: Organization (Continued)**

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

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

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

##### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Organization and its wholly owned subsidiary, SLOT, LLC. All significant intercompany balances and transactions have been eliminated in consolidation. There were no intervening events due to differing financial reporting periods that materially affected financial position or the change in net assets requiring disclosure at June 30, 2021.

##### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers demand deposits with financial institutions, money market funds and certificates of deposits with an original maturity date of three months or less to be cash equivalents. At June 30, 2021, the Organization had \$820,585 of cash equivalents.

##### **Accounts and Grants Receivable**

The Organization provides an allowance for uncollectible accounts and grants receivables based upon prior experience and management's assessment of the collectability of specific existing accounts. Based on a review of accounts and grants receivables, management has determined that an allowance for doubtful accounts was unnecessary at June 30, 2021. Any bad debts in the future would be charged off as incurred.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2021**

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

**Promises To Give**

Promises to give are unconditional promises to make future payments to the Organization. Promises to give are recognized as contributions in the period pledged when all applicable eligibility requirements are met. Promises to give payments to be made in future years are recorded net of an allowance for doubtful accounts of \$828 at June 30, 2021. Management has determined that a discount to record promises to give at their present value is immaterial to the financial statements and has not recorded any discount for promises to give in these financial statements.

**Inventories**

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

**Property and Equipment**

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

**Net Assets**

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

*Net Assets Without Donor Restrictions*

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may from time to time designate a portion of this asset class for specific projects or activities. There were board restricted net assets of \$100,000 at June 30, 2021.

*Net Assets With Donor Restrictions*

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

## **Transitions-Mental Health Association**

### **Notes to Financial Statements**

**June 30, 2021**

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

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

#### **Revenue and Revenue Recognition**

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

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

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

#### **Income Taxes**

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

## **Transitions-Mental Health Association**

### **Notes to Financial Statements**

**June 30, 2021**

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

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

#### **Donated Materials and Services**

The Organization receives donations of time and services from members of the community and volunteers which are recorded in the financial statements if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. However, the value of these donations is not reflected in the accompanying financial statements since they do not meet the two recognition criteria described above. In-kind donations of fixed assets and supplies used directly by the Organization are valued at their appraised values at the time of the bequest.

#### **Advertising Costs**

Advertising costs consist of non-direct response costs and are expensed as incurred. Advertising costs for the year ended June 30, 2021 totaled \$14,911.

#### **Litigation**

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

#### **Functional Expense Allocations**

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

#### **Concentrations**

##### *Major Funding:*

The Organization received grant funding from San Luis Obispo and Santa Barbara Counties, which accounted for approximately 73% of total revenues during the year ended June 30, 2021.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2021**

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

At June 30, 2021, two grantors that made up 86% of the grants receivable balance.

*Credit Risk:*

The Organization maintains cash balances with three financial institutions located in California. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2021, the Organization had cash balances in excess of the FDIC limit of \$1,927,975. 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	\$ 2,573,621
Grants receivable	2,119,656
Promises to give, current portion, net of allowance	19,872
Accounts receivable	22,096
Less: net assets with purpose restrictions	<u>(565,048)</u>
	<u>\$ 4,170,197</u>

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in money market funds. Occasionally, the Board designates a portion of any operating surplus to its building reserve, which was \$100,000 at June 30, 2021.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2021**

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**Note 4: Grants Receivable**

At June 30, 2021, grants receivable were comprised of:

San Luis Obispo County	\$	1,003,211
Santa Barbara County		496,279
San Luis Obispo County Department of Social Services		326,106
AFDC		63,695
DOR		62,184
Other		168,181
		<u>168,181</u>
Total grants receivable	\$	<u><u>2,119,656</u></u>

**Note 5: Promises To Give**

At June 30, 2021, promises to give were comprised of:

Bishop Street Studios	\$	20,700
Less allowance for uncollectible accounts		<u>(828)</u>
Pledges receivable, net	\$	<u><u>19,872</u></u>
Amounts due in:		
One year or less	\$	<u>19,872</u>
Total amounts due	\$	<u><u>19,872</u></u>

**Note 6: Inventories**

At June 30, 2021, inventories were comprised of:

Nursery	\$	96,845
Downtown store		<u>10,700</u>
Total inventories	\$	<u><u>107,545</u></u>

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2021**

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**Note 7: Property and Equipment**

At June 30, 2021, property and equipment were comprised of:

Land	\$	3,722,734
Buildings		9,297,330
Improvements		911,409
Farm equipment		169,800
Office equipment		146,503
Furniture and equipment		47,867
Vehicles		<u>1,215,210</u>
		15,510,853
Less accumulated depreciation and amortization		<u>(4,732,188)</u>
Property and equipment, net of accumulated depreciation and amortization	\$	<u><u>10,778,665</u></u>

**Note 8: Notes Payable**

At June 30, 2021, notes payable were comprised of the following:

Note payable to a bank, secured by a first deed of trust with principal and interest at 4.25% due in monthly installments of \$1,142 with a maturity date of October 2022.	\$	160,648
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.		1,638,327
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.		229,714
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.		573,268
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.		540,000
Notes payable to a financing company, secured by vehicles with principal and interest at 1.90% due in monthly installments of \$379 with a maturity date of March 2022.		14,075



**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2021**

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**Note 8: Notes Payable (Continued)**

Note payable to a bank, secured by a vehicle with principal and interest at 4.75% due in monthly installments of \$1,034 with a maturity date of February 2023.	\$ 19,886
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.	454,421
Note payable to a bank, secured by a first deed of trust with principal and interest at 3.63% due in monthly installments of \$5,404 with a maturity date of June 2024.	1,004,744
Note payable to a bank, secured by a vehicle with principal and interest at 8.79% due in monthly installments of \$415 with a maturity date of May 2023.	<u>11,554</u>
	4,646,637
Less current portion	<u>(202,334)</u>
Notes payable, net of current portion	<u>\$ 4,444,303</u>

At June 30, 2021, principal maturities on notes payable were as follows:

<u>For the Year Ending June 30,</u>	
2022	\$ 202,334
2023	338,737
2024	1,093,440
2025	646,267
2026	135,349
Thereafter	<u>2,230,510</u>
Total	<u>\$ 4,646,637</u>

In addition, the Organization has a Paycheck Protection Program (PPP) note payable to Mechanics Bank, issued in the amount of \$702,965 on April 30, 2020. The note matures on April 30, 2022 and is unsecured. This note, guaranteed by the Small Business Administration (SBA) under the Coronavirus Aid, Relief and Economic Security Act has had repayment terms extended under the PPP Flexibility Act of 2020 subject to forgiveness approval by the SBA. Management expects the note payable to be forgiven based upon costs incurred and therefore it is not included in the preceding maturities table. See Note 14 for a subsequent event.

Two of the notes payable are subject to a loan covenant with the lender for a minimum debt service coverage ratio. At June 30, 2021, the Organization was in compliance with that covenant.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2021**

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**Note 9: Designations and Restrictions on Net Assets**

At June 30, 2021, the Organization had the following net assets with donor restrictions:

Purpose restrictions:		
Santa Barbara programs	\$	111,751
San Luis Obispo programs		283,049
Growing Grounds enterprise		170,248
Time-restricted for future periods:		
Forgivable loans		<u>3,051,952</u>
	\$	<u><u>3,617,000</u></u>

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

**Note 10: Operating Leases**

The Organization leases office space and facilities under seven non-cancellable lease agreements which expire through September 2023. In addition, the Organization leases six copiers for their office locations with lease terms through April 2025.

At June 30, 2021, future minimum lease payments under these operating leases were as follows:

<b><u>For the Year Ending June 30,</u></b>		
2022	\$	205,042
2023		109,497
2024		16,751
2025		<u>2,586</u>
Total	\$	<u><u>333,876</u></u>

During the year, the Organization also leased approximately 71 housing units on a month-to-month basis that are generally rented out to clients.

Rent expense under these leases for the year ended June 30, 2021, was \$1,659,947.

**Transitions-Mental Health Association**

**Notes to Financial Statements**

**June 30, 2021**

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**Note 11: 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 and will be forgiven through February 2066. No payment is due back to the funding source unless the Organization breaks the contract. If the Organization continues to use the facilities as stipulated by offering housing to low-income individuals, then the required guarantee will be forgiven over the contract period. Management has no intention of breaking the contract agreements. These amounts are included in net assets with donor restrictions until the restrictions are released and totaled \$3,051,952 at June 30, 2021.

Management expects the loan balances to be forgiven as follows:

<b><u>For the Year Ending June 30,</u></b>	
2022	\$ 22,480
2023	22,480
2024	22,480
2025	22,479
2026	17,500
Thereafter	<u>2,944,533</u>
Total	<u>\$ 3,051,952</u>

*Bishop Street Studios:*

In April 2014, the Organization entered into a no obligation option agreement with the County of San Luis Obispo to purchase certain property and easements for a purchase price of \$100 with a restrictive covenant that the property be used for affordable housing for the mentally disabled population. In May 2016, the Organization entered into a Memorandum of Understanding (MOU) with Housing Authority of the City of San Luis Obispo (HASLO) to form a limited partnership under a joint venture agreement for the purpose of developing and operating approximately 34 permanent affordable housing units on the property for individuals with a mental health diagnosis. HASLO and the

## **Transitions-Mental Health Association**

### **Notes to Financial Statements**

**June 30, 2021**

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#### **Note 11: Commitments and Contingencies (Continued)**

Organization each own .0045% of the limited partnership, Bishop Street Studios, LP (BSS, LP) and are general partners. The remaining 99.99% is owned by the investment limited partner and provides tax credits to the limited partners over a 15-year period. At the end of the 15-year period the general partners will have the right to buy the project at a pre-established formula from the partnership.

As part of the MOU, the Organization has raised \$2,403,094 through June 30, 2021. For the year ended June 30, 2021 the Organization incurred \$4,186 in expenses for the project. Additional contributions will be made as necessary to maintain the tax credit status for the limited partnership. At June 30, 2021, the Organization had \$0 in net assets with donor restrictions for this project. In September 2019, the facility was completed and in accordance with the original agreement, the Organization is now operating the facility.

#### **Note 12: 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, 2021 were \$248,640.

#### **Note 13: COVID-19 Pandemic**

The Organization has been impacted by the recent COVID-19 pandemic. Due to the uncertainty surrounding the pandemic, the length and severity of the outbreak, and the volatility in the world investment markets, there is uncertainty as to how these events will affect results of operations. The Organization has experienced delays in providing services to clients and has had to incur additional costs to maintain safety in the facilities they operate.

#### **Note 14: Subsequent Events**

Events subsequent to June 30, 2021 have been evaluated through January 18, 2022, which is the date the financial statements were available to be issued.

During September 2021, the Organization had its Paycheck Protection Program (PPP) note payable to Mechanics Bank forgiven in the amount of \$702,965 along with accrued interest.

## **Other Independent Auditors' Reports**



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

To the Board of Trustees of  
Transitions-Mental Health Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Transitions-Mental Health Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, 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 January 18, 2022.

**Internal Control Over Financial Reporting**

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

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

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

**Board of Trustees**  
**Transitions-Mental Health Association**  
**Page 2**

**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

San Luis Obispo, California

January 18, 2022



**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, 2021. 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, 2021.

**SAN LUIS OBISPO**

1150 Palm Street  
San Luis Obispo, CA 93401  
p 805 544 1441  
f 805 544 4351

**PASO ROBLES**

102 South Vine Street, Ste. A  
Paso Robles, CA 93446  
p 805 237 3995  
f 805 239 9332

**SANTA MARIA**

2222 South Broadway, Ste. A  
Santa Maria, CA 93454  
p 805 922 4010  
f 805 922 4286



**Board of Trustees**  
**Transitions-Mental Health Association**  
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**Report on Internal Control Over Compliance**

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

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

San Luis Obispo, California

January 18, 2022

**Transitions-Mental Health Association**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2021**

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Agency Number	Federal Expenditures
<b>US Department of Housing and Urban Development</b>			
Passed through City of Santa Maria Community Development Block Grant/Entitlement Grants	14.218	95-6000788	\$ 19,919
Passed through City of Lompoc Community Development Block Grant/Entitlement Grants	14.218	59680	<u>15,000</u>
			<u>34,919</u>
Passed through County of San Luis Obispo Supportive Housing Program - SLO City 20/21	14.267	95-6000939	238,442
Supportive Housing Program - SLO City 21/22	14.267	95-6000939	26,950
Supportive Housing Program - Bordeaux Expansion - 19/20	14.267	95-6000939	19,753
Supportive Housing Program - Central Coast - 19/20	14.267	95-6000939	52,468
Supportive Housing Program - Central Coast & Bordeaux - 20/21	14.267	95-6000939	<u>309,701</u>
			<u>647,314</u>
Passed through County of San Luis Obispo Home Investment Partnership Program	14.239	95-6000939	<u>305,289</u>
Subtotal US Department of Housing and Urban Development			<u>987,522</u>
<b>US Department of Education</b>			
Passed through State of California Department of Rehabilitation Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	68-0279670	82,021
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	68-0279670	69,388
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	68-0279670	<u>61,159</u>
Subtotal US Department of Education			<u>212,568</u>
<b>US Department of Health and Human Services</b>			
Passed through County of San Luis Obispo Projects for Assistance in Transition from Homelessness (PATH)	93.150	95-6000939	52,351
Passed through County of San Luis Obispo Foster Care-Title IV-E	93.658	95-6000939	<u>484,932</u>
Subtotal US Department of Health and Human Services			<u>537,283</u>
<b>US States Department of Health and Human Services</b>			
passed through The Center at Sierra Health Foundation Community Mental Health Services Block Grant	93.958	45-5282243	99,002
Community Mental Health Services Block Grant	93.958	45-5282243	<u>75,946</u>
Subtotal US States Department of Health and Human Services			<u>174,948</u>
Total			<u>\$ 1,912,321</u>

*See accompanying notes to schedule of expenditures of federal awards.*

**Transitions-Mental Health Association**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2021**

**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, 2021 which have been financed by federal awards. For purposes of the schedule, federal awards include all federal grants received directly from the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. Because the schedule presents only a selected portion of the activities of the Organization, it is not intended to and does not present either the financial position or changes in net position of the Organization.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in the basic financial statements.

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

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures in prior years.

**Note 3: Indirect Cost Rate**

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

**Note 4: Loans Outstanding**

The Organization had the following loan balances outstanding at June 30, 2021. These balances do not include the interest that would be payable on the loans if the Organization were in default.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant/Entitlement Grants	14.218	\$ 19,919
Home Investment Partnership Program	14.239	<u>305,289</u>
		<u>\$ 325,208</u>

**Transitions-Mental Health Association  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2021**

**Section I: Summary of Auditors' Results**

**Financial Statements:**

- (a) Type of auditors' report issued on financial statements: **Unmodified.**
- (b) Internal control over financial reporting:
- Material weakness(es) identified: **No.**
  - Significant deficiencies identified not considered to be material weakness: **None reported.**
- (c) Noncompliance material to financial statements noted: **No.**

**Federal Awards:**

- (d) Internal control over major programs:
- Material weakness(es) identified: **No.**
  - Significant deficiencies identified not considered to be material weaknesses: **None reported.**
- (e) Type of auditors' report issued on compliance for major programs: **Unmodified.**
- (f) Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of Uniform Guidance: **No.**
- (g) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000.**
- (h) Major Program(s):
- U.S. Department of Health and Human Services – 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, 2020  
Year Ended June 30, 2021**

None.