Transitions-Mental Health Association

Consolidated Financial Statements

Year Ended June 30, 2019

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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, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

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

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transitions-Mental Health Association as of June 30, 2019, 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 March 5, 2020, on our consideration of Transitions-Mental Health Association's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transitions-Mental Health Association's internal control over financial reporting and compliance.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

March 5, 2020

Transitions-Mental Health Association

Consolidated Statement of Financial Position

June 30, 2019

Assets		
Current assets:		
Cash and cash equivalents	$	1,930,111
Grants receivable		1,659,924
Promises to give, current portion, net of allowance		45,100
Accounts receivable		20,983
Inventories		143,652
Prepaid expenses		279,148
Total current assets		4,078,918
Other assets:		
Property and equipment, net of accumulated depreciation and amortization		10,440,539
Promises to give, net of allowance and current portion		58,454
Total assets	$	14,577,911
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	239,265
Accrued payroll and related expenses		322,232
Accrued vacation		307,023
Accrued unemployment insurance		86,300
Other accrued liabilities		190,170
Refundable advances		47,720
Notes payable, current portion		201,735
Total current liabilities		1,394,445
Long-term liabilities:		
Notes payable, net of current portion		4,281,293
Total liabilities		5,675,738
Net assets:		
Without donor restrictions		5,613,089
With donor restrictions		3,289,084
Total net assets		8,902,173
Total liabilities and net assets	$	14,577,911

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

Transitions-Mental Health Association

Consolidated Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restricted	Total
Revenues and support:			
Federal grants	$ 1,036,613	$	$ 1,036,613
State and local grants and contracts	10,586,495	299,240	10,885,735
Client rents	1,137,129		1,137,129
Contributions	532,330		532,330
Fundraising, net of direct costs of $17,474	18,086		18,086
Other revenue	53,891		53,891
Nursery revenue, net of cost of goods sold	298,544		298,544
Total revenues and support	13,663,088	299,240	13,962,328
Net assets released from restrictions	1,257,311	(1,257,311)	-
Expenses:			
Program services	12,544,255		12,544,255
Supporting services:			
General and administrative	1,423,158		1,423,158
Fundraising	80,136		80,136
Total expenses	14,047,549		14,047,549
Change in net assets	872,850	(958,071)	(85,221)
Net assets - beginning of year	4,740,239	4,247,155	8,987,394
Net assets - end of year	$ 5,613,089	$ 3,289,084	$ 8,902,173

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

Transitions-Mental Health Association
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Housing Services	Community Wellness and Education	Mental Health Treatment Services	Vocational Services
Advertising and pre-employment	$ 3,533	$ 2,025	$ 2,519	$ 3,051
Client expenses	132,718	23,649	79,183	382
Computers and information technology	3,372	14,525	15,514	1,445
Contracted employees			28,699	
Credit card fees				6,357
Depreciation and amortization	59,783	30,782	66,776	18,845
Dues and subscriptions	1,681	4,475	1,154	799
Fundraising				
Furniture and equipment	1,058,713			414
Honorarium		44,955		
Insurance	27,106	10,790	28,895	8,076
Interest	92,201	11,658	13,382	3,409
Marketing and public relations	1,556	402		2,353
Occupancy fee	67,945	32,485	37,287	9,500
Office supplies	16,640	29,308	74,029	11,441
Other expenses	8,163	8,332	1,274	
Postage and printing		2,093		23
Professional fees	930	15,361	4,117	853
Program supplies	22,446	32,462	3,964	3,503
Rent	1,194,931	60,746	64,004	16,560
Rent subsidies	15,450		2,094	
Repairs and maintenance	86,328	5,354	12,359	7,529
Salaries and benefits	2,003,512	1,633,084	3,527,284	1,029,943
Staff development and training	14,852	62,057	68,685	6,817
Taxes and licenses	8,080			961
Telephone	46,431	25,814	47,467	10,016
Transportation	50,385	20,894	87,609	21,294
Utilities	191,431	13,739	10,975	10,237
Total	$ 5,108,187	$ 2,084,990	$ 4,177,270	$ 1,173,808

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

General and Administrative	Fundraising	Total
$ 957	$ 475	$ 12,560
		235,932
8,335		43,191
		28,699
	1,760	8,117
59,815		236,001
15,767		23,876
	12,867	12,867
		1,059,127
		44,955
1,936	300	77,103
16,440	256	137,346
1,048	4,855	10,214
34,067	713	181,997
18,011	667	150,096
2,022	18,791	38,582
26	1,905	4,047
286,367	220	307,848
	539	62,914
		1,336,241
		17,544
606		112,176
928,318	32,450	9,154,591
31,042	4,000	187,453
3,817		12,858
7,955	190	137,873
6,629	148	186,959
		226,382
$ 1,423,158	$ 80,136	$ 14,047,549

Transitions-Mental Health Association
Consolidated Statement of Cash Flows
Year Ended June 30, 2019

Cash flows from operating activities:		
Change in net assets		$ (85,221)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	$ 236,001	
Changes in operating assets and liabilities:		
Grants receivable	291,968	
Promises to give, net of allowance	88,202	
Accounts receivable	(4,889)	
Inventories	(11,551)	
Prepaid expenses	(20,992)	
Accounts payable	52,653	
Accrued payroll and related expenses	15,306	
Accrued vacation	24,216	
Accrued unemployment insurance	33,454	
Other accrued liabilities	44,714	
Deferred income	47,720	
Total adjustments		796,802
Net cash provided by operating activities		711,581
Cash flows from investing activities:		
Purchase of property and equipment	(1,613,434)	
Net cash used in investing activities		(1,613,434)
Cash flows from financing activities:		
Repayments on notes payable	(160,395)	
Borrowings on notes payable	1,058,625	
Net cash provided by financing activities		898,230
Net decrease in cash and cash equivalents		(3,623)
Cash and cash equivalents - beginning of year		1,933,734
Cash and cash equivalents - end of year		$ 1,930,111
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year		$ 137,346
Non-cash transactions:		
Issuance of notes payable for property and equipment		$ 16,679

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

Transitions-Mental Health Association
Notes to Financial Statements
June 30, 2019

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.

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

Basis of Accounting

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

Financial Statement Presentation

Under Non-for-Profit Entities Presentation of Financial Statements Subtopic of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) the Organization is required to classify its financial position and activities for accounting and reporting purposes into two classes of net assets according to externally (donor) imposed restrictions: net assets without donor restrictions and net assets with donor restrictions.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Organization and its wholly owned subsidiary, SLOT, LLC. All significant intercompany balances and transactions have been eliminated in consolidation. There were no intervening events due to differing financial reporting periods that materially affected financial position or the change in net assets requiring disclosure at June 30, 2019.

Note 2: Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. For the year ended June 30, 2019, the Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

Implementation of ASU 2016-14 required a reclassification or restatement of opening net asset balances related to the period presented. At June 30, 2018, the Organization's net assets previously reported as temporarily restricted $4,247,155 are now reported as net assets with donor restrictions. Likewise, the Organization's net assets previously reported as unrestricted, $4,740,239, are now reported as net assets without donor restrictions.

Contributions

In accordance with Non-for-Profit Entities, Revenue Recognition Subtopic of FASB ASC contributions received are recorded as unrestricted or restricted support depending on the existence or nature of any donor restrictions. As the Organization incurs expenses that meet the restricted purposes, net assets are released from restriction. When restrictions are met in the same reporting period as the restricted contributions are received, the amounts are shown as unrestricted. All contributions to the Organization are recorded at fair market value at the time of receipt.

Recognition of Donor Restrictions

Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, (that is, when a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers demand deposits with financial institutions, money market funds and certificates of deposits with an original maturity date of three months or less to be cash equivalents. At June 30, 2019, the Organization had $187,681 of cash equivalents.

Note 2: Summary of Significant Accounting Policies (Continued)

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, 2019. Any bad debts in the future would be charged off as incurred.

Promises To Give

Promises to give are unconditional promises to make future payments to the Organization. Promises to give are recognized as contributions in the period pledged when all applicable eligibility requirements are met. Promises to give payments to be made in future years are recorded net of an allowance for doubtful accounts of $4,315 at June 30, 2019. 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.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to current year presentation. These reclassifications had no effect on the Company's results of operations or financial position.

Income Taxes

The Organization has been determined to be exempt from federal taxes on income under Internal Revenue Code Section 501(c) (3) as a publicly supported Organization. The Organization is also exempt from state income taxes. However, the Organization remains subject to taxes on any net income that is derived from a trade or business, regularly carried on, and unrelated to its exempt purpose with certain exclusions. No income taxes have been

Note 2: Summary of Significant Accounting Policies (Continued)

recorded in the accompanying consolidated financial statements for taxable unrelated business income since management believes the Organization has none. SLOT, LLC is a limited liability company (LLC) and does not incur income taxes as earnings are included as part of the Organization return. In California, an LLC is subject to state income taxes at a minimum of $800 and an LLC fee based on the gross receipts

Income Taxes Topic of FASB ASC requires, among other things, the recognition and measurement of tax positions based on a "more likely than not" (likelihood greater than 50%) approach. As of June 30, 2019, management has considered its tax positions and believes that the Organization did not maintain any tax positions that did not meet the "more likely than not" threshold. The Organization does not expect any material changes through June 30, 2020. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after June 30, 2016, and by the California Franchise Tax Board for fiscal years ending on or after June 30, 2015.

Advertising Costs

Advertising costs consist of non-direct response costs and are expensed as incurred. Advertising costs for the year ended June 30, 2019 totaled $12,560.

Concentrations

Major Funding:
The Organization received grant funding from San Luis Obispo and Santa Barbara Counties, which accounted for approximately 69% of total revenues during the year ended June 30, 2019.

At June 30, 2019, there were three grantors that made up 87% of the grants receivable balance. In addition, there were two customers that made up 40% of the accounts receivable balance and four donors that made up 89% of the promises to give balance at June 30, 2019.

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, 2019, the Organization had cash balances in excess of the FDIC limit of $1,307,781. 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 2: Summary of Significant Accounting Policies (Continued)

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. 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.

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	$	1,930,111
Grants receivable		1,659,924
Promises to give, current portion, net of allowance		45,100
Accounts receivable		20,983
Less: net assets with purpose restrictions		(192,172)
	$	3,463,946

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, 2019.

Note 4: Grants Receivable

At June 30, 2019, grants receivable were comprised of:

San Luis Obispo County	$	556,546
Santa Barbara County		197,082
San Luis Obispo County Department of Planning and Building		258,865
San Luis Obispo County Department of Social Services		107,901
California Department of Rehabilitation		129,398
City of San Luis Obispo		330,000
Other		80,132
Total grants receivable	$	1,659,924

Note 5: Promises To Give

At June 30, 2019, promises to give were comprised of:

Bishop Street Studios	$	107,869
Less allowance for uncollectible accounts		(4,315)
Pledges receivable, net	$	103,554
Amounts due in:		
One year or less	$	45,100
One to five years		58,454
Total amounts due	$	103,554

Note 6: Inventories

At June 30, 2019, inventories were comprised of:

Nursery	$	129,171
Downtown store		14,481
Total inventories	$	143,652

Note 7: Property and Equipment

At June 30, 2019, property and equipment were comprised of:

Land	$	3,592,728
Buildings		8,294,298
Improvements		902,469
Farm equipment		169,800
Office equipment		157,802
Furniture and equipment		48,894
Vehicles		1,203,219
		14,369,210
Less accumulated depreciation and amortization		(3,928,671)
Property and equipment, net of accumulated depreciation and amortization	$	10,440,539

Note 8: Notes Payable

At June 30, 2019, 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.	$ 173,565
Note payable to a bank, secured by a first deed of trust with principal and interest at 3.43% due in monthly installments of $9,241 with a maturity date of October 2026.	1,734,180
Note payable to CA Health Facilities Financing, secured by a first deed of trust with principal and interest at 3.0% due in monthly installments of $3,577 with a maturity date of May 2027.	299,421
Note payable to a bank, secured by a first deed of trust with principal and interest at 4.75% due in monthly installments of $3,917 for 60 months and 59 additional principal and interest payments of $4,270 at 5.78% interest. Note matures September 2024.	605,963
Notes payable to a financing company, secured by vehicles with principal and interest at 1.90% due in monthly installments of $355 with a maturity date of July 2020.	18,204
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.	48,676
Note payable to a financing company, secured by a vehicle with principal and interest at 1.90% due in monthly installments of $518 with a maturity date of July 2020.	6,641
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.	41,452
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.	477,389
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.	1,058,625

Note 8: Notes Payable (Continued)

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.	$	18,912
		4,483,028
Less current portion		(201,735)
Notes payable, net of current portion	$	4,281,293

At June 30, 2019, principal maturities on notes payable were as follows:

For the Year Ending June 30,		
2020	$	201,735
2021		187,356
2022		188,064
2023		322,774
2024		1,079,932
Thereafter		2,503,167
Total	$	4,483,028

Two of the notes payable are subject to a loan covenant with the lender for a minimum debt service coverage ratio. At June 30, 2019, the Organization was in compliance with that covenant.

Note 9: Designations and Restrictions on Net Assets

At June 30, 2019, the Organization had the following net assets with donor restrictions:

Purpose restrictions:		
Bishop street studios	$	88,525
Santa Barbara programs		30,000
San Luis Obispo programs		73,647
Time-restricted for future periods:		
Forgivable loans		3,096,912
	$	3,289,084

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

Note 10: Operating Leases

The Organization leases office space and facilities under three non-cancellable lease agreements which expire through August 2020. In addition, the Organization leases four copiers for their office locations with lease terms through January 2024.

At June 30, 2019, future minimum lease payments under these operating leases were as follows:

For the Year Ending June 30,		
2020	$	57,829
2021		10,564
2022		2,729
2023		2,424
2024		1,414
Total	$	74,960

During the year, the Organization also leased approximately 68 housing units that they lease on a month-to-month basis and generally rent out to clients.

Rent expense under these leases for the year ended June 30, 2019, was $1,336,241.

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 $3,096,912 at June 30, 2019.

Note 11: Commitments and Contingencies (Continued)

Management expects the loan balances to be forgiven as follows:

For the Year Ending June 30,		
2020	$	22,480
2021		22,480
2022		22,480
2023		22,480
2024		22,480
Thereafter		2,984,512
Total	$	3,096,912

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

As part of the MOU, the Organization has raised $2,208,694 through June 30, 2019. For the year ended June 30, 2019 the Organization contributed $1,007,063 to HASLO who loaned the funds to BSS, LP. In addition, the Organization incurred $60,107 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, 2019, the Organization had $88,525 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 will be 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, 2019 were $185,952.

Note 13: Subsequent Events

Events subsequent to June 30, 2019 have been evaluated through March 5, 2020, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

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, 2019, 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 March 5, 2020.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs at item 2019-100 that we consider to be a significant deficiency.

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Compliance and Other Matters

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

Purpose of this Report

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

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

March 5, 2020

GLENN BURDETTE
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees of
Transitions-Mental Health Association

Report on Compliance for Each Major Federal Program

We have audited Transitions-Mental Health Association's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Transitions-Mental Health Association's major federal programs for the year ended June 30, 2019. 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, 2019.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are descried in the accompanying schedule of findings and questioned costs as item 2019-200. Our opinion on each major federal program is not modified with respect to these matters.

Transitions-Mental Health Association's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questions costs. Transitions-Mental Health Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-200, that we considered to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

March 5, 2020

Transitions-Mental Health Association
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Agency Number	Federal Expenditures
US Department of Housing and Urban Development			
passed through City of Santa Maria			
Community Development Block Grant/Entitlement Grants	14.218	95-6000788	$ 37,560
passed through City of Lompoc			
Community Development Block Grant/Entitlement Grants	14.218	59680	6,500
			44,060
passed through County of San Luis Obispo			
Supportive Housing Program - SLO City 18/19	14.267	95-6000939	229,011
Supportive Housing Program - SLO City 19/20	14.267	95-6000939	17,701
Supportive Housing Program - Bordeaux Expansion - 17/18	14.267	95-6000939	22,061
Supportive Housing Program - Bordeaux Expansion - 18/19	14.267	95-6000939	24,240
Supportive Housing Program - Central Coast - 17/18	14.267	95-6000939	111,525
Supportive Housing Program - Central Coast - 18/19	14.267	95-6000939	195,730
			600,268
passed through County of San Luis Obispo			
Home Investment Partnership Program	14.239	95-6000939	305,289
Subtotal US Department of Housing and Urban Development			949,617
US Department of Education			
passed through State of California Department of Rehabilitation			
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	28552	174,083
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	29601	68,539
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	30063	63,452
Subtotal US Department of Education			306,074
US Department of Health and Human Services			
passed through County of San Luis Obispo			
Foster Care-Title IV-E	93.658	95-6000939	94,133
passed through County of San Luis Obispo			
Projects for Assistance in Transition from Homelessness (PATH)	93.15	95-6000939	29,638
Subtotal US Department of Health and Human Services			123,771
Total			$ 1,379,462

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, 2019

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, 2019, which have been financed by federal awards. For purposes of the schedule, federal awards include all federal grants received directly from the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. Because the schedule presents only a selected portion of the activities of the Organization, it is not intended to and does not present either the financial position or changes in net position of the Organization.

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

Note 2: Expenditures

For new awards or modifications of existing awards after December 26, 2014, the expenditures reported in the SEFA follow the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*. The cost principles indicate that certain types of expenditures are not allowable and certain allowable costs are limited as to reimbursement.

The Organization did not have any expenditures to subrecipients for the year ended June 30, 2019.

Note 3: Indirect Cost Rate

The Association has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Loans Outstanding

The Organization had the following loan balances outstanding at June 30, 2019. The loan programs are included at their June 30, 2018 balance in the federal expenditures presented in the Schedule of Expenditures of Federal Awards at June 30, 2019.

Program Title	CFDA Number	Amount
Community Development Block Grant/Entitlement Grants	14.218	$ 29,879
Home Investment Partnership Program	14.239	305,289
		$ 335,168

Transitions-Mental Health Association
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

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:* **Yes, 2019-100.**

(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: **Yes, 2019-200.**

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

(f) Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a): **No.**

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

(h) Major Program(s):
- U.S. Department of Health and Human Services – Foster Care – Title IV-E (CFDA #93.658)
- U.S. Department of Education – Rehabilitation Services Vocational Grants – (CFDA #84.126A)

(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*

Finding 2019-100: Timely Account Reconciliations and Deposit of Funds (Significant Deficiency)

Condition: During our audit, we determined that one bank account, with an immaterial balance had not been reconciled on a regular basis and that several of the vehicle loan balances had also not been reconciled. This resulted in approximately $18,000 in loan principal and interest payments which had not been properly applied to outstanding debt and interest expense balances. In addition, we noted during our accounts receivable testwork that there were 3 checks, totaling approximately $22,000, received on June 20, 2019, June 24, 2019 and June 27, 2019, that were not deposited until fiscal year 2020.

Finding 2019-100: Timely Account Reconciliations and Deposit of Funds (Continued)

Criteria: All balance sheet accounts should be reconciled on a periodic basis and specifically at year end. In addition, cash deposits should be made on a regular basis and there should be an emphasis prior to the end of the year to make sure all deposits are made.

Cause: The Organization did not have controls in place to make sure that all reconciliations were performed and cash deposits were made at year end.

Effect: Because several reconciliations were not being done on a regular basis, errors were made in the financial statement balances. In addition, cash and accounts receivable balances were not properly recorded at June 30, 2019.

Recommendation: We recommend that the Organization put procedures in place to make sure that all reconciliations are performed on a periodic basis and that at a minimum they are performed at year end. In addition, we recommend that procedures are put in place to make sure that all cash received prior to the end of the year is deposited prior to the end of the period.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding. The agency has correcting this deficiency by making the following changes: 1) All loan payments are now applied to the appropriate principal and interest account each month. The loan accounts are also reviewed periodically by finance staff and the Finance & Operations Director to ensure payments are being distributed correctly over the course of the year; 2) all bank accounts are now reconciled monthly by finance staff and reviewed with the Finance & Operations Director each month; and 3) at fiscal year-end, all checks and cash received at the end of June will be deposited on the last business day of the month.

Section III: Findings and Questioned Costs for Federal Awards

U.S. Department of Health and Human Services
Foster Care Title IV-E – CFDA 93.658

Finding 2019-200: Calculation of Federal Revenue (Significant Deficiency)

Condition: During our initial determination of major programs for single audit testwork, the client reported on the Schedule of Expenditures of Federal Awards (SEFA), expenditures for the Foster Care program of approximately $483,000. As a result, this program was selected for major program testwork. However, during initial testing of the program and review of related contracts with clients in the program, it was determined that there was only approximately $94,000 of federal revenue for the current year related to this program.

Finding 2019-200: Calculation of Federal Revenue (Significant Deficiency) (Continued)

Criteria: The Organization is required to properly report federal revenues on the SEFA.

Cause: The Organization did not properly calculate the federal and non-federal portions of the Foster Care program prior to preparation of the SEFA.

Effect: The original SEFA was incorrect for the Foster Care program and, as a result, an additional major program was selected for current year single audit testwork. In addition, in order to properly meet grant requirements related to federal programs, the Organization needs to understand the source of their revenue on an ongoing basis.

Recommendation: We recommend that the client review the SEFA in detail in order to properly record revenue and prior to providing for audit purposes to verify all federal revenues are properly recorded and in agreement with the general ledger and provisions of the federal program.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding. The agency recorded the federal and non-federal revenue in the accounting system appropriately, with an immaterial variance. The trial balance given to the auditor indicating the split between federal and non-federal revenue for the Foster Care program was off by an immaterial amount (difference of $5,988) compared to the auditor's calculation between federal and non-federal revenue. The SEFA that was provided to the auditor, which is a separate report outside of the accounting system, had the incorrect distribution between federal and non-federal in error and did not match the trial balance amount given. The error was then corrected and updated on the SEFA. This deficiency has been corrected and a plan has been implemented to ensure the SEFA matches the trial balance. The SEFA will be reconciled against the trail balance prior to submitting to the auditor in the future.

Transitions-Mental Health Association

Status of Prior Year Findings and Questioned Costs – June 30, 2018

Year Ended June 30, 2019

Section IV: Status of Prior Year Findings and Questioned Costs

None.