Transitions-Mental Health Association

Consolidated Financial Statements

Year Ended June 30, 2020

Transitions-Mental Health Association

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Year Ended June 30, 2020

Table of Contents

GLENN BURDETTE
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Transitions-Mental Health Association

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Transitions-Mental Health Association (a nonprofit organization) and its subsidiary, which comprise the consolidated statement of financial position as of June 30, 2020, 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, 2020, 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 19, 2021, 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 19, 2021

Transitions-Mental Health Association

Consolidated Statement of Financial Position

June 30, 2020

Assets		
Current assets:		
Cash and cash equivalents	$	2,035,656
Grants receivable		2,457,741
Promises to give, current portion, net of allowance		26,750
Accounts receivable		24,240
Inventories		110,516
Prepaid expenses		312,529
Total current assets		4,967,432
Other assets:		
Property and equipment, net of accumulated depreciation and amortization		10,440,684
Promises to give, net of allowance and current portion		19,484
Total assets	$	15,427,600
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	241,413
Accrued payroll and related expenses		372,766
Accrued vacation		377,560
Accrued unemployment insurance		121,868
Other accrued liabilities		188,879
Deferred revenue		1,658
Notes payable, current portion		186,769
Total current liabilities		1,490,913
Long-term liabilities:		
Notes payable, net of current portion		4,101,290
Paycheck Protection Program loan		702,965
Total long-term liabilities		4,804,255
Total liabilities		6,295,168
Net assets:		
Without donor restrictions		5,643,875
With donor restrictions		3,488,557
Total net assets		9,132,432
Total liabilities and net assets	$	15,427,600

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

Transitions-Mental Health Association

Consolidated Statement of Activities

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restricted	Total
Revenues and support:			
Federal grants	$ 1,383,301	$	$ 1,383,301
State and local grants and contracts	138,215	145,649	283,864
Contracts	11,217,478		11,217,478
Client rents	1,217,037		1,217,037
Contributions	285,938	448,694	734,632
Fundraising events, net of direct costs of $16,507	27,350		27,350
Interest income	1,381		1,381
Other revenue	15,237		15,237
Nursery revenue, net of cost of goods sold	258,737		258,737
Total revenues and support	14,544,674	594,343	15,139,017
Net assets released from restrictions	394,870	(394,870)	-
Expenses:			
Program services	13,270,732		13,270,732
Supporting services:			
General and administrative	1,515,813		1,515,813
Fundraising	122,213		122,213
Total expenses	14,908,758		14,908,758
Change in net assets	30,786	199,473	230,259
Net assets - beginning of the year	5,613,089	3,289,084	8,902,173
Net assets - end of year	$ 5,643,875	$ 3,488,557	$ 9,132,432

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

Transitions-Mental Health Association
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services						
	Housing Services	Community Wellness and Education	Mental Health Treatment Services	Vocational Services	General and Administrative	Fundraising	Total
Advertising and pre-employment	$ 3,090	$ 1,498	$ 1,769	$ 2,823	$ 512	$ 13	$ 9,705
Client expenses	141,134	24,343	101,354	258			267,089
Computers and information technology	15,445	16,156	32,032	6,556	38,218	182	108,589
Contracted employees		14,153	19,625				33,778
Credit card fees			20	8,012	2,369	1,748	12,149
Depreciation and amortization	240,124	35,311	90,915	18,845	58,227		443,422
Dues and subscriptions	4,171	10,834	7,909	1,980	34,483	2,988	62,365
Fundraising						10,591	10,591
Furniture and equipment	214,526	1,584	32,642				248,752
Honorarium		18,151					18,151
Insurance	29,941	13,964	32,662	9,446	13,061	826	99,900
Interest	73,079	22,236	30,783	7,725	37,731	1,862	173,416
Marketing and public relations	8,876	2,131	884	1,858	9,250	427	23,426
Occupancy fee	47,071	14,322	19,828	4,976	24,303	1,200	111,700
Office supplies	20,112	35,777	40,802	8,320	23,323	10,779	139,113
Other expenses	18,078	6,673	1,334	699	1,765	19,531	48,080
Postage and printing	645	6,852	4,766	2,425	13,290	9,217	37,195
Professional fees	40,682	8,019	10,539	660	250,085	2,479	312,464
Program supplies	36,207	43,695	29,979	819	3,047	536	114,283
Rent	1,325,405	65,178	202,871	15,256	(733)		1,607,977
Rent subsidies	8,073						8,073
Repairs and maintenance	119,467	6,291	21,411	17,400	538		165,107
Salaries, wages, and related expenses	2,319,898	1,707,105	3,946,425	1,039,673	968,758	74,982	10,056,841
Staff development and training	12,067	30,647	40,115	3,720	15,191	157	101,897
Taxes and licenses	23,118			1,075	2,646		26,839
Telephone	50,816	28,458	60,608	13,423	11,428	443	165,176
Transportation	65,952	25,111	142,586	31,477	8,321	759	274,206
Utilities	211,735	12,908	10,292	10,046			244,981
Total expenses by function	5,029,712	2,151,397	4,882,151	1,207,472	1,515,813	138,720	14,925,265
Less expenses included with revenues on the statement of activities:							
Direct costs of fundraising						(16,507)	(16,507)
Total expenses included in the expense section on the statement of activities	$ 5,029,712	$ 2,151,397	$ 4,882,151	$ 1,207,472	$ 1,515,813	$ 122,213	$ 14,908,758

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

Transitions-Mental Health Association

Consolidated Statement of Cash Flows

Year Ended June 30, 2020

Cash flows from operating activities:		
Change in net assets		$ 230,259
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	$ 445,832	
Changes in operating assets and liabilities:		
Grants receivable	(797,817)	
Promises to give, net of allowance	57,320	
Accounts receivable	(3,257)	
Inventories	33,136	
Prepaid expenses	(33,381)	
Accounts payable	2,148	
Accrued payroll and related expenses	50,534	
Accrued vacation	70,537	
Accrued unemployment insurance	35,568	
Other accrued liabilities	(1,291)	
Deferred revenue	(46,062)	
Total adjustments		(186,733)
Net cash provided by operating activities		43,526
Cash flows from investing activities:		
Purchase of property and equipment	(445,977)	
Net cash used in investing activities		(445,977)
Cash flows from financing activities:		
Repayments on notes payable	(194,969)	
Borrowings on Paycheck Protection Program loan	702,965	
Net cash provided by financing activities		507,996
Net increase in cash and cash equivalents		105,545
Cash and cash equivalents - beginning of year		1,930,111
Cash and cash equivalents - end of year		$ 2,035,656
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year		$ 173,416

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

Transitions-Mental Health Association
Notes to Financial Statements
June 30, 2020

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

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, 2020.

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, 2020, the Organization had $213,900 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, 2020. Any bad debts in the future would be charged off as incurred.

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 $1,925 at June 30, 2020. 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 no board restricted net assets at June 30, 2020.

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.

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.

Change in Accounting Principle

The Organization has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605) and ASU No. 2014-09 *Revenue Recognition from Contracts with Customers* and subsequent amendments, as management believes the standards improve the usefulness and understandability of the Organization's financial reporting. There have been no changes to these financial statements as a result of the adoption of these ASUs.

Note 2: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. Annually, the Organization files a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. Management has determined the Organization is 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, 2020 totaled $9,705.

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.

Note 2: Summary of Significant Accounting Policies (Continued)

Concentrations

Major Funding:
The Organization received grant funding from San Luis Obispo and Santa Barbara Counties, which accounted for approximately 69% of total revenues during the year ended June 30, 2020.

At June 30, 2020, two grantors that made up 94% of the grants receivable balance. In addition, three donors made up 94% of the promises to give balance at June 30, 2020.

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, 2020, the Organization had cash balances in excess of the FDIC limit of $1,528,738. 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	$ 2,035,656
Grants receivable	2,457,741
Promises to give, current portion, net of allowance	26,750
Accounts receivable	24,240
Less: net assets with purpose restrictions	(414,125)
	$ 4,130,262

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, 2020.

Note 4: Grants Receivable

At June 30, 2020, grants receivable were comprised of:

San Luis Obispo County	$	1,628,110
Santa Barbara County		404,481
San Luis Obispo County Department of Social Services		278,734
AFDC		67,660
DOR		49,616
Other		29,140
Total grants receivable	$	2,457,741

Note 5: Promises To Give

At June 30, 2020, promises to give were comprised of:

Bishop Street Studios	$	48,159
Less allowance for uncollectible accounts		(1,925)
Pledges receivable, net	$	46,234
Amounts due in:		
One year or less	$	26,750
One to five years		19,484
Total amounts due	$	46,234

Note 6: Inventories

At June 30, 2020, inventories were comprised of:

Nursery	$	99,208
Downtown store		11,308
Total inventories	$	110,516

Note 7: Property and Equipment

At June 30, 2020, property and equipment were comprised of:

Land	$ 3,592,728
Buildings	8,702,532
Improvements	911,409
Farm equipment	169,800
Office equipment	157,802
Furniture and equipment	48,894
Vehicles	1,212,850
	14,796,015
Less accumulated depreciation and amortization	(4,355,331)
Property and equipment, net of accumulated depreciation and amortization	$ 10,440,684

Note 8: Notes Payable

At June 30, 2020, 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.	$ 167,257
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.	1,687,231
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.	265,090
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.	590,624
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.	772
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.	34,357

Note 8: Notes Payable (Continued)

Note payable to a financing company, secured by a vehicle with principal and interest at 1.90% due in monthly installments of $518 with a maturity date of July 2020.	$	495
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.		30,773
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.		466,681
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.		1,032,068
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.	$	12,711
		4,288,059
Less current portion		(186,769)
Notes payable, net of current portion	$	4,101,290

At June 30, 2020, principal maturities on notes payable were as follows:

For the Year Ending June 30,		
2021	$	186,769
2022		188,649
2023		322,925
2024		1,079,601
2025		632,061
Thereafter		1,878,054
Total	$	4,288,059

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.

Two of the notes payable are subject to a loan covenant with the lender for a minimum debt service coverage ratio. At June 30, 2020, the Organization was in compliance with that covenant.

Note 9: Designations and Restrictions on Net Assets

At June 30, 2020, the Organization had the following net assets with donor restrictions:

Purpose restrictions:		
Bishop street studios	$	1,027
Santa Barbara programs		146,595
San Luis Obispo programs		170,755
Growing Grounds enterprise		95,748
Time-restricted for future periods:		
Forgivable loans		3,074,432
	$	3,488,557

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 six non-cancellable lease agreements which expire through March 2023. In addition, the Organization leases six copiers for their office locations with lease terms through April 2025.

At June 30, 2020, future minimum lease payments under these operating leases were as follows:

For the Year Ending June 30,		
2021	$	233,575
2022		93,842
2023		73,497
2024		7,751
2025		2,586
Total	$	411,251

During the year, the Organization also leased approximately 68 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, 2020, was $1,607,977.

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 $3,074,432 at June 30, 2020.

Management expects the loan balances to be forgiven as follows:

For the Year Ending June 30,	
2021	$ 22,480
2022	22,480
2023	22,480
2024	22,480
2025	22,479
Thereafter	2,962,033
Total	$ 3,074,432

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

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 $2,403,036 through June 30, 2020. For the year ended June 30, 2020 the Organization incurred $230,639 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, 2020, the Organization had $1,027 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, 2020 were $203,424.

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, 2020 have been evaluated through March 19, 2021, 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, 2020, 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 19, 2021.

Internal Control Over Financial Reporting

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

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

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

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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 19, 2021

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, 2020. 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, 2020.

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Report on Internal Control Over Compliance

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

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

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

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

Glenn Burdette Attest Corporation

Glenn Burdette Attest Corporation
San Luis Obispo, California

March 19, 2021

Transitions-Mental Health Association
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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	$ 29,879
Passed through City of Lompoc			
Community Development Block Grant/Entitlement Grants	14.218	59680	12,000
			41,879
Passed through County of San Luis Obispo			
Supportive Housing Program - SLO City 19/20	14.267	95-6000939	225,618
Supportive Housing Program - SLO City 20/21	14.267	95-6000939	33,847
Supportive Housing Program - Bordeaux Expansion - 18/19	14.267	95-6000939	19,122
Supportive Housing Program - Bordeaux Expansion - 19/20	14.267	95-6000939	29,103
Supportive Housing Program - Central Coast - 18/19	14.267	95-6000939	59,576
Supportive Housing Program - Central Coast - 19/20	14.267	95-6000939	279,025
			646,291
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			993,459
US Department of Education			
Passed through State of California Department of Rehabilitation			
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	68-0279670	159,753
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	68-0279670	74,114
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126A	68-0279670	71,454
Subtotal US Department of Education			305,321
US Department of Health and Human Services			
Passed through County of San Luis Obispo			
Foster Care-Title IV-E	93.658	95-6000939	369,234
Passed through County of San Luis Obispo			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	95-6000939	50,456
Subtotal US Department of Health and Human Services			419,690
Total			$ 1,718,470

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, 2020

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, 2020 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, 2020. These balances do not include the interest that would be payable on the loans if the Organization were in default.

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, 2020

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 Housing and Urban Development – Supportive Housing Program (CFDA #14.267)

(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, 2019
Year Ended June 30, 2020

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.

Recommendation: We recommended 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 recommended 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.

Current Status: Implemented.

Finding 2019-200: Calculation of Federal Revenue – Significant Deficiency

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

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.

Recommendation: We recommended 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.

Current Status: Implemented.