

MENTAL HEALTH ASSOCIATION
OF ORANGE COUNTY

FINANCIAL STATEMENT

JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors of
Mental Health Association
of Orange County
Santa Ana, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Mental Health Association of Orange County (the "Association") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether

INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Responsibility (Continued)

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the 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 Association'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 financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of Mental Health Association of Orange County as of June 30, 2019 and 2018 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.



Guzman & Gray, CPAs
Long Beach, California
October 22, 2019

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF FINANCIAL POSITION

ASSETS

	June 30,	
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 588,297	\$ 580,067
Grants and program receivables	710,739	679,377
Prepaid expenses	89,976	62,466
Total Current Assets	1,389,012	1,321,910
 FURNITURE AND EQUIPMENT, net	-	-
 OTHER ASSETS		
Trust account	349,083	336,427
 TOTAL ASSETS	\$ 1,738,095	\$ 1,658,337

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	61,610	46,924
Payroll payable	178,196	172,119
Accrued vacation	93,969	104,092
Total Current Liabilities	333,775	323,135
 OTHER LIABILITIES		
Trust account liability	349,083	336,427
Security deposit	-	2,320
Total Other Liabilities	349,083	338,747
 TOTAL LIABILITIES	682,858	661,882
 NET ASSETS		
Without donor restrictions	993,216	952,102
With donor restrictions	62,021	44,353
	1,055,237	996,455
 TOTAL LIABILITIES AND NET ASSETS	\$ 1,738,095	\$ 1,658,337

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant revenues	\$ 8,075,122		\$ 8,075,122
Contributions	74,966	\$ 144,610	219,576
Program revenues	129,761		129,761
Thrift sales	12,282		12,282
Interest	34		34
Other Income	5,375		5,375
	8,297,540	144,610	8,442,150
 NET ASSETS RELEASED FROM RESTRICTION			
	126,942	(126,942)	-
TOTAL SUPPORT AND REVENUE	8,424,482	17,668	8,442,150
 EXPENSES			
Program services	7,352,708		7,352,708
Management and general	983,650		983,650
Fundraising	47,010		47,010
TOTAL EXPENSES	8,383,368		8,383,368
 CHANGE IN NET ASSETS	41,114	17,668	58,782
 BEGINNING NET ASSETS	952,102	44,353	996,455
 ENDING NET ASSETS	\$ 993,216	\$ 62,021	\$ 1,055,237

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant revenues	\$ 7,392,520		\$ 7,392,520
Contributions	194,972	\$ 2,000	196,972
Program revenues	119,120		119,120
Thrift sales	20,027		20,027
Interest	60		60
Other Income	3,167		3,167
	7,729,866	2,000	7,731,866
 NET ASSETS RELEASED FROM RESTRICTION			
	529	(529)	-
TOTAL SUPPORT AND REVENUE	7,730,395	1,471	7,731,866
 EXPENSES			
Program services	6,961,365		6,961,365
Management and general	693,015		693,015
Fundraising	49,352		49,352
TOTAL EXPENSES	7,703,732		7,703,732
 CHANGE IN NET ASSETS	26,663	1,471	28,134
 BEGINNING NET ASSETS	925,439	42,882	968,321
 ENDING NET ASSETS	\$ 952,102	\$ 44,353	\$ 996,455

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 58,782	\$ 28,134
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	-	1,802
(Increase) decrease in assets:		
Grants receivable	(31,362)	58,691
Prepaid expenses	(27,510)	17,748
Other assets	(12,656)	(80,976)
Increase (decrease) in liabilities:		
Accounts payable	14,686	34,174
Payroll payable	6,077	(651)
Accrued vacation	(10,123)	9,266
Other liabilities	10,336	80,976
NET CASH FROM OPERATING ACTIVITIES	8,230	149,164
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit		(500,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES	-	(500,000)
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	8,230	(350,836)
BEGINNING CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	580,067	930,903
ENDING CASH, CASH EQUIVALENTS AND, RESTRICTED CASH	\$ 588,297	\$ 580,067

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

INTEREST PAID	\$ 6,889	\$ 7,561
INCOME TAXES PAID	NONE	NONE

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
SALARIES AND RELATED EXPENSES				
Salaries and wages	\$ 3,832,825	\$ 392,345	\$ 33,000	\$ 4,258,170
Payroll taxes	311,645	27,397	3,425	342,467
Employee benefits	525,475	56,199	1,370	583,044
TOTAL SALARIES AND RELATED EXPENSES	<u>4,669,945</u>	<u>475,941</u>	<u>37,795</u>	<u>5,183,681</u>
OTHER EXPENSES				
Rent and utilities	1,116,159	180,278	147	1,296,584
Professional fees	586,049	233,289	5,116	824,454
Direct client expenses	208,919	3,084	-	212,003
Repairs and maintenance	205,437	9,523	150	215,110
Program expenses	37,259	5	-	37,264
Office expenses	123,272	44,707	823	168,802
Telephone	117,343	14,369	71	131,783
Travel	73,061	2,255	-	75,316
Insurance	99,319	-	391	99,710
Equipment leases	66,311	6,389	30	72,730
Dues and subscriptions	8,649	4,080	1,008	13,737
Printing	9,549	880	1,476	11,905
Staff training	7,108	960	3	8,071
Interest	-	6,889	-	6,889
Community Service Awards	8,653	-	-	8,653
Other expenses	15,675	1,001	-	16,676
TOTAL OTHER EXPENSES	<u>2,682,763</u>	<u>507,709</u>	<u>9,215</u>	<u>3,199,687</u>
TOTAL EXPENSES	<u>\$ 7,352,708</u>	<u>\$ 983,650</u>	<u>\$ 47,010</u>	<u>\$ 8,383,368</u>

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	Total Expenses
SALARIES AND RELATED EXPENSES				
Salaries and wages	\$ 3,618,934	\$ 433,454	\$ 36,803	\$ 4,089,191
Payroll taxes	288,537	25,366	3,171	317,074
Employee benefits	551,073	31,005	2,925	585,003
TOTAL SALARIES AND RELATED EXPENSES	<u>4,458,544</u>	<u>489,825</u>	<u>42,899</u>	<u>4,991,268</u>
OTHER EXPENSES				
Rent and utilities	1,082,563	80,233	-	1,162,796
Professional fees	636,607	49,445	687	686,739
Direct client expenses	211,426	-	-	211,426
Repairs and maintenance	110,709	9,779	241	120,730
Program expenses	29,169	-	-	29,169
Office expenses	107,400	13,532	975	121,907
Telephone	75,092	11,962	262	87,316
Travel	67,629	2,453	-	70,082
Insurance	79,927	8,650	1,532	90,109
Equipment leases	56,726	7,469	193	64,388
Dues and subscriptions	11,677	1,847	1,370	14,894
Printing	3,792	20	1,069	4,880
Depreciation	-	1,802	-	1,802
Staff training	13,778	2,158	48	15,984
Interest	-	7,561	-	7,561
In-kind contributions	-	-	-	-
Community service awards	11,874	-	-	11,874
Other expenses	4,452	6,279	76	10,807
TOTAL OTHER EXPENSES	<u>2,502,821</u>	<u>203,190</u>	<u>6,453</u>	<u>2,712,464</u>
TOTAL EXPENSES	<u>\$ 6,961,365</u>	<u>\$ 693,015</u>	<u>\$ 49,352</u>	<u>\$ 7,703,732</u>

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION

The Orange County Association for Mental Health (doing business as the Mental Health Association of Orange County) is a California, non-profit corporation formed to improve the quality of life for Orange County residents impacted by mental illness. This mission is achieved through direct services, advocacy, education, and information dissemination.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting.

Basis of Presentation

The accompanying financial statements of the Association are prepared on the accrual basis of accounting in accordance with accounting principles accepted in the United States of America. Net assets and revenue, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets are classified and reported as:

Without Donor Restrictions – Those resources not subject to donor-imposed restrictions. The board of directors has discretionary control over these resources. Designated amounts represent those net assets that the board has set aside for a particular purpose.

With Donor Restrictions – Those resources subject to donor imposed restrictions that will be satisfied by action of the Organization or by the passage of time.

The Organization has elected to present contributions with donor restrictions that are fulfilled in the same period within the net assets without donor restrictions class.

Revenues are reported as increases in revenue without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in revenue without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in revenue without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of revenue with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent obligations at the date of the financial statements and accompanying notes.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Association has adopted the provisions of Fair Value Measurements and Disclosures for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Cash and Cash Equivalents

The Association considers all highly-liquid investments, which are readily convertible to known amounts of cash and which have an original maturity of three months or less, to be cash equivalents.

Grants and Program Receivables

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Grant revenues earned, but not received, are recorded as a receivable.

Allowance for Doubtful Accounts

The Association uses the allowance method to record doubtful receivables. As of June 30, 2019 and 2018, the Association considers its receivables to be fully collectible and there is no allowance for doubtful accounts.

Furniture and Equipment

Furniture and equipment are carried at cost or, if donated, at the fair market value at date of donation. Depreciation is provided on the straight-line method over estimated useful lives of three to seven years. Additions and improvements that increase the capacity or lengthen the useful lives of the assets are capitalized. Repair and maintenance costs are expensed as incurred.

Grants and Program Income

Grant revenue and expenses relating to the Activity Center are recorded in the activity center group of accounts. General operations and programs are recorded in the operations group of accounts.

Accounts held for individuals

The Association is the representative payee for various individuals, the funding for the program requires that the Association hold the individual's cash in a separate bank account. Amounts held for individuals as of June 30, 2019 and 2018 are \$349,083 and \$336,427 respectively.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. All contributions are considered to be unrestricted unless specifically restricted by the donor. Any such contributions are recognized as an increase to the without donor restrictions fund. Contributions that are restricted by the donor are reported as increases in with donor restrictions net assets. When a restriction expires, with donor restrictions net assets are reclassified to without donor restrictions net assets.

Donated Services and Goods

Contribution of services shall be recognized if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet the criteria shall not be recognized.

Donated goods are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated goods to a specific purpose.

Allocation of Functional Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Exempt Organization Status and Income Taxes

The Association is exempt from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Tax Code. Contributions to the Association are deductible for tax purposes under Section 170(c)(2) of the Internal Revenue Code. The Association is involved in no activities that are subject to unrelated business tax. As a result, no provision for income taxes has been made.

The Association evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the tax positions will more likely than not be sustained upon examination. As of June 30, 2019, management does not believe the Association has any uncertain tax positions requiring accrual or disclosure. The Association is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

New Accounting Pronouncements Implemented this Year

In August 18, 2016, FASB issued ASU 2016-14, Not-for-profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update 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. The Center has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting of Subsequent Events

The Association has evaluated events and transactions for potential recognition or disclosure through October 22, 2019 represents the date the financial statements were available to be issued.

NOTE 3 – GRANTS AND PROGRAM RECEIVABLES

Grants and program receivables consist of the following:

	June 30,	
	2019	2018
County of Orange	\$ 665,692	\$ 632,792
Other	45,047	46,585
	\$ 710,739	\$ 679,377

NOTE 4 – FURNITURE AND EQUIPMENT, net

Furniture and equipment consists of the following:

	June 30,	
	2019	2018
Furniture and equipment	\$ 67,748	\$ 83,673
Less: accumulated depreciation	(67,748)	(83,673)
	\$ 0	\$ 0

For the years ending June 30, 2019 and 2018, depreciation expense was \$0 and \$1,802, respectively.

NOTE 5 – ACCRUED VACATION

The Association accrues a liability for all employee vacation time and compensated time off which has been earned but not paid. As of June 30, 2019 and 2018, the accrued vacation balances were \$93,969 and \$104,092, respectively.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 6 – LINE OF CREDIT

During June 2017, the Association renewed its line of credit from a bank for up to a maximum \$750,000. The interest rate is based on the Wall Street Journal Prime Rate plus 2 index points. As of June 30, 2019 and 2018, the line of credit bears an interest rate of 5.75% and is incurred on outstanding balances and payable on a monthly basis. All assets of the Association excluding the Trust Accounts are collateral for the line of credit. As of June 30, 2019 and 2018, there was a balance of \$0.

NOTE 7 – RETIREMENT PLAN

The Association has a retirement plan for employees consisting of a tax-sheltered annuity plan. Under the provisions of the plan, the Association Employees may make voluntary contributions up to 15% of salary with the Association making a matching contribution up to 3% of salary. For the years ended June 30, 2019 and 2018, the Association made contributions to the plan of \$44,343 and \$49,343, respectively.

NOTE 8 – LEASE OBLIGATIONS

The Association is obligated under the terms of operating leases for the rental of certain facilities. For the years ended June 30, 2019 and 2018, total rental expenses were \$1,260,060 and \$1,128,667, respectively. Leases have a cancellation clause option based upon an interruption of funding from contracts.

The Association entered lease agreements to rent office equipment. The lease agreements require fixed monthly base rate and variable usage amounts. Future minimum payments, contingent on continued funding from contracts, associated with lease obligations are as follows:

<u>Years Ending June 30,</u>	<u>Equipment</u>	<u>Rent</u>	<u>Total</u>
2020	\$ 49,774	\$ 1,202,000	1,251,774
2021	40,486	1,152,845	1,193,331
2022	12,691	1,027,666	1,040,357
2023		1,041,249	1,041,249
2024		949,151	949,151
Thereafter		1,042,672	1,042,672
	<u>\$ 102,951</u>	<u>\$ 6,415,583</u>	<u>\$ 6,518,534</u>

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 9 – WITH DONOR RESTRICTIONS NET ASSETS

As of June 30, 2019 and 2018, the Organization had with donor restrictions net assets of \$62,021 and \$44,353 respectively for programs. For the years ending June 30, 2019 and 2018 the amounts released from restrictions were \$126,942 and \$529 respectively.

NOTE 10 – CONCENTRATIONS AND CONTINGENCIES

The Association provides services to the area of Orange County, California. For the years ended June 30, 2019 and 2018, the Association received 96% of its support from grants from various agencies and municipalities. Management applies for grant funding each year. The grants have various objectives and compliance requirements. Management is satisfied that all objectives and requirements have been met.

The Association maintains its cash and cash equivalents in financial institutions, which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash equivalents.

NOTE 11 – LIQUIDITY AND AVAILABILITY

The Association maintains and manages adequate operating funds per policies set by the board of directors.

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

Cash and cash equivalents	\$ 588,297
Receivables	<u>710,739</u>
Financial assets, at year end	<u>1,299,036</u>
Less: Donor restrictions	<u>(62,021)</u>
Total funds unavailable for general expense within one year	<u>(62,021)</u>
Financial assets available for general expenditure	<u>\$ 1,237,015</u>