

MENTAL HEALTH ASSOCIATION
OF ORANGE COUNTY

FINANCIAL STATEMENT

JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors of
Mental Health Association
of Orange County
Orange, 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, 2017 and 2016, 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, 2017 and 2016 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
November 22, 2017

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF FINANCIAL POSITION

ASSETS

	June 30,	
	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 930,903	\$ 697,490
Grants and program receivables	738,068	585,062
Prepaid expenses	80,214	53,052
Total Current Assets	1,749,185	1,335,604
 FURNITURE AND EQUIPMENT, net	1,802	7,314
 OTHER ASSETS		
Trust account	255,451	283,056
 TOTAL ASSETS	2,006,438	1,625,974

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	12,750	163,853
Payroll payable	172,770	145,811
Accrued vacation	94,826	89,007
Line of credit	500,000	
Total Current Liabilities	780,346	398,671
 OTHER LIABILITIES		
Trust account liability	255,451	283,056
Security deposit	2,320	2,320
Total Other Liabilities	257,771	285,376
 TOTAL LIABILITIES	1,038,117	684,047
 NET ASSETS		
Unrestricted	925,439	902,389
Temp restricted	42,882	39,538
	968,321	941,927
 TOTAL LIABILITIES AND NET ASSETS	\$ 2,006,438	\$ 1,625,974

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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grant revenues	\$ 6,873,334		\$ 6,873,334
Contributions	165,755	\$ 4,895	170,650
Program revenues	102,503		102,503
Thrift sales	21,722		21,722
Interest	137		137
In-kind contributions			-
Other Income	1,215		1,215
	<u>7,164,666</u>	<u>4,895</u>	<u>7,169,561</u>
NET ASSETS RELEASED FROM RESTRICTION			
	<u>1,551</u>	<u>(1,551)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>7,166,217</u>	<u>3,344</u>	<u>7,169,561</u>
EXPENSES			
Program services	6,442,990		6,442,990
Management and general	654,460		654,460
Fundraising	45,717		45,717
TOTAL EXPENSES	<u>7,143,167</u>		<u>7,143,167</u>
CHANGE IN NET ASSETS	23,050	3,344	26,394
BEGINNING NET ASSETS	<u>902,389</u>	<u>39,538</u>	<u>941,927</u>
ENDING NET ASSETS	<u>\$ 925,439</u>	<u>\$ 42,882</u>	<u>\$ 968,321</u>

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, 2016

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grant revenues	\$ 6,152,039		\$ 6,152,039
Contributions	195,560	\$ 40,000	235,560
Program revenues	107,580		107,580
Thrift sales	45,353		45,353
Interest	70		70
Other Income	12,308		12,308
	6,512,910	40,000	6,552,910
NET ASSETS RELEASED FROM RESTRICTION			
	462	(462)	-
TOTAL SUPPORT AND REVENUE	6,513,372	39,538	6,552,910
EXPENSES			
Program services	5,782,281		5,782,281
Management and general	570,757		570,757
Fundraising	102,606		102,606
TOTAL EXPENSES	6,455,644		6,455,644
CHANGE IN NET ASSETS	57,728	39,538	97,266
BEGINNING NET ASSETS	844,661		844,661
ENDING NET ASSETS	\$ 902,389	\$ 39,538	\$ 941,927

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, 2017 AND 2016

	June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 26,394	\$ 97,266
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	5,512	5,512
(Increase) decrease in assets:		
Grants receivable	(153,006)	18,999
Prepaid expenses	(27,162)	(34,124)
Other assets	27,605	(145,026)
Increase (decrease) in liabilities:		
Accounts payable	(151,103)	61,763
Payroll payable	26,959	23,409
Accrued vacation	5,819	30,329
Other liabilities	(27,605)	145,026
NET CASH FROM OPERATING ACTIVITIES	(266,587)	203,154
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	500,000	
NET CASH FLOWS FROM FINANCING ACTIVITIES	500,000	
NET INCREASE IN CASH AND CASH EQUIVALENTS	233,413	203,154
BEGINNING CASH AND CASH EQUIVALENTS	697,490	494,336
ENDING CASH AND CASH EQUIVALENTS	\$ 930,903	\$ 697,490

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

INTEREST PAID	\$ 13,214	\$ 2,941
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, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
SALARIES AND RELATED EXPENSES				
Salaries and wages	\$ 3,389,733	\$ 407,221	\$ 33,000	\$ 3,829,954
Payroll taxes	267,308	23,500	2,937	293,745
Employee benefits	422,847	23,386	2,458	448,691
TOTAL SALARIES AND RELATED EXPENSES	<u>4,079,888</u>	<u>454,107</u>	<u>38,395</u>	<u>4,572,390</u>
OTHER EXPENSES				
Rent and utilities	\$ 1,055,575	\$ 77,618	\$ 79	1,133,272
Professional fees	553,677	42,931	726	597,334
Direct client expenses	195,083	-	-	195,083
Repairs and maintenance	103,211	9,217	185	112,613
Program expenses	20,605	-	-	20,605
Office expenses	152,085	19,080	1,431	172,596
Telephone	62,844	10,022	227	73,093
Travel	55,366	1,974	7	57,347
Insurance	73,975	7,972	1,454	83,401
Equipment leases	53,043	6,973	158	60,174
Dues and subscriptions	8,753	1,380	1,025	11,158
Printing	6,948	38	1,961	8,947
Depreciation	-	5,512	-	5,512
Staff training	11,185	1,749	36	12,970
Interest	-	13,214	-	13,214
In-kind contributions	-	-	-	-
Community Service Awards	8,853	-	-	8,853
Other expenses	1,899	2,673	33	4,605
TOTAL OTHER EXPENSES	<u>2,363,102</u>	<u>200,353</u>	<u>7,322</u>	<u>2,570,777</u>
TOTAL EXPENSES	<u>\$ 6,442,990</u>	<u>\$ 654,460</u>	<u>\$ 45,717</u>	<u>\$ 7,143,167</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, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
SALARIES AND RELATED EXPENSES				
Salaries and wages	\$ 2,936,605	\$ 293,660	\$ 32,630	\$ 3,262,895
Payroll taxes	250,288	25,029	2,780	278,097
Employee benefits	377,677	28,736	4,105	410,518
TOTAL SALARIES AND RELATED EXPENSES	<u>3,564,570</u>	<u>347,425</u>	<u>39,515</u>	<u>3,951,510</u>
OTHER EXPENSES				
Rent and utilities	\$ 865,524	\$ 97,250	\$ 9,725	\$ 972,499
Professional fees	499,792	38,027	5,433	543,252
Direct client expenses	150,917	-	-	150,917
Repairs and maintenance	139,492	5,813	-	145,305
Program	12,128	-	-	12,128
Office expenses	299,059	37,380	37,380	373,819
Telephone	37,513	15,223	1,631	54,367
Travel	55,266	1,128	-	56,394
Insurance	83,729	1,709	-	85,438
Equipment leases	43,566	8,500	1,062	53,128
Dues and subscriptions	8,145	2,602	565	11,312
Printing	1,449	2,276	6,622	10,347
Depreciation	3,969	1,543	-	5,512
Staff training	6,232	189	-	6,421
Interest	88	2,853	-	2,941
Community Service Awards	10,745	-	-	10,745
Other expenses	97	8,839	673	9,609
TOTAL OTHER EXPENSES	<u>2,217,711</u>	<u>223,332</u>	<u>63,091</u>	<u>2,504,134</u>
TOTAL EXPENSES	<u>\$ 5,782,281</u>	<u>\$ 570,757</u>	<u>\$ 102,606</u>	<u>\$ 6,455,644</u>

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 Association reports information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of each of these net asset classes is listed below.

Unrestricted net assets – Net assets that are not subject to donor imposed restrictions and that may be expendable for any purpose in performing the Association’s primary objectives.

Temporarily restricted net assets – Net assets subject to donor imposed stipulations that may or will be met either by actions of the Association and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. For the years ended June 30, 2017 and 2016, the temporarily restricted assets are \$42,882 and \$39,538 respectively.

Permanently restricted net assets – Net assets are utilized to record resources received that are permanently restricted as to use by the donor or grantor. For the years ended June 30, 2017 and 2016, there were no permanently restricted assets.

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, 2017 AND 2016

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, 2017 and 2016, 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 Jun 30, 2017 and 2016 are \$255,451 and \$283,056 respectively.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 unrestricted restricted fund. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted 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, 2017, 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.

Reporting of Subsequent Events

The Association has evaluated events and transactions for potential recognition or disclosure through November 22, 2017 which represents the date the financial statements were available to be issued.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 3 – GRANTS AND PROGRAM RECEIVABLES

Grants and program receivables consist of the following:

	June 30,	
	2017	2016
County of Orange	\$ 697,151	\$ 536,012
City of Santa Ana		2,100
Other	40,917	46,950
	\$ 738,068	\$ 585,062

NOTE 4 – FURNITURE AND EQUIPMENT, net

Furniture and equipment consists of the following:

	June 30,	
	2017	2016
Furniture and equipment	\$ 247,922	\$ 247,922
Less: accumulated depreciation	(246,120)	(240,608)
	\$ 1,802	\$ 7,314

For the years ending June 30, 2017 and 2016, depreciation expense was \$5,512 and \$5,512, 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, 2017 and 2016, the accrued vacation balances were \$94,826 and \$89,007, respectively.

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, 2017 and 2016, 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, 2017 and 2016, there was a balance of \$500,000 and none, respectively.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017 and 2016, the Association made contributions to the plan of \$21,113 and \$38,971, 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, 2017 and 2016, total rental expenses were \$1,103,359 and \$938,648, 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:

Years Ending June 30,	Equipment	Rent	Total
2018	\$32,278	\$ 1,109,543	\$1,141,821
2019	19,280	988,454	1,007,734
2020	5,280	742,711	747,991
2021		527,580	527,580
2022		257,063	257,063
2023 and thereafter		254,831	254,831
	\$ 56,838	\$ 3,880,182	\$ 3,937,020

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2017 and 2016, the Organization had temporarily restricted net assets of \$42,882 and \$39,538 respectively for programs. For the years ending June 30, 2017 and 2016 the amounts released from restrictions were \$1,551 and \$462 respectively.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 10 – CONCENTRATIONS AND CONTINGENCIES

The Association provides services to the area of Orange County, California. For the years ended June 30, 2017 and 2016, the Association received 96% and 94% 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. Cash deposited in financial institutions differs from cash presented in the statement of financial position due to timing differences.