

MENTAL HEALTH ASSOCIATION
OF ORANGE COUNTY

FINANCIAL STATEMENT

JUNE 30, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015 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 26, 2016

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF FINANCIAL POSITION

ASSETS

	June 30,	
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 697,490	\$ 494,336
Grants and program receivables	585,062	604,061
Prepaid expenses	53,052	18,928
Total Current Assets	1,335,604	1,117,325
FURNITURE AND EQUIPMENT, net	7,314	12,826
OTHER ASSETS		
Trust account	283,056	138,030
TOTAL ASSETS	1,625,974	1,268,181
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	163,853	102,090
Payroll payable	145,811	122,402
Accrued vacation	89,007	58,678
Total Current Liabilities	398,671	283,170
OTHER LIABILITIES		
Trust account liability	283,056	138,030
Security deposit	2,320	2,320
Total Other Liabilities	285,376	140,350
TOTAL LIABILITIES	684,047	423,520
NET ASSETS		
Unrestricted	902,389	844,661
Temp restricted	39,538	-
	941,927	844,661
TOTAL LIABILITIES AND NET ASSETS	\$ 1,625,974	\$ 1,268,181

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
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
	<u>6,512,910</u>	<u>40,000</u>	<u>6,552,910</u>
NET ASSETS RELEASED FROM RESTRICTION			
	<u>462</u>	<u>(462)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>6,513,372</u>	<u>39,538</u>	<u>6,552,910</u>
EXPENSES			
Program services	5,782,281		5,782,281
Management and general	570,757		570,757
Fundraising	102,606		102,606
TOTAL EXPENSES	<u>6,455,644</u>		<u>6,455,644</u>
CHANGE IN NET ASSETS	57,728	39,538	97,266
BEGINNING NET ASSETS	<u>844,661</u>		<u>844,661</u>
ENDING NET ASSETS	<u>\$ 902,389</u>	<u>\$ 39,538</u>	<u>\$ 941,927</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, 2015

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grant revenues	\$ 5,004,749		\$ 5,004,749
Contributions	190,744		190,744
Program revenues	141,290		141,290
Thrift sales	51,195		51,195
Interest	134		134
In-kind contributions	43,159		43,159
Other Income	11,094		11,094
	5,442,365	-	5,442,365
NET ASSETS RELEASED FROM RESTRICTION			
	-	-	-
TOTAL SUPPORT AND REVENUE	5,442,365	-	5,442,365
EXPENSES			
Program services	4,873,851		4,873,851
Management and general	484,671		484,671
Fundraising	72,293		72,293
TOTAL EXPENSES	5,430,815	-	5,430,815
CHANGE IN NET ASSETS	11,550	-	11,550
BEGINNING NET ASSETS	833,111	-	833,111
ENDING NET ASSETS	\$ 844,661	\$ -	\$ 844,661

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, 2016 AND 2015

	June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 97,266	\$ 11,550
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	5,512	5,511
(Increase) decrease in assets:		
Grants receivable	18,999	(144,541)
Prepaid expenses	(34,124)	2,096
Other assets	(145,026)	(4,717)
Increase (decrease) in liabilities:		
Accounts payable	61,763	(127,546)
Payroll payable	23,409	20,670
Accrued vacation	30,329	2,407
Other liabilities	145,026	4,717
NET CASH FROM OPERATING ACTIVITIES	203,154	(229,853)
NET INCREASE IN CASH AND CASH EQUIVALENTS	203,154	(229,853)
BEGINNING CASH AND CASH EQUIVALENTS	494,336	724,189
ENDING CASH AND CASH EQUIVALENTS	\$ 697,490	\$ 494,336

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

INTEREST PAID	\$ 2,941	\$ 350
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, 2016

	Program Services	Management and General	Fundraising	Total Expenses
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
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services	Management and General	Fundraising	Total Expenses
SALARIES AND RELATED EXPENSES				
Salaries and wages	\$ 2,464,944	\$ 246,494	\$ 27,388	\$ 2,738,826
Payroll taxes	251,646	25,165	2,795	279,606
Employee benefits	382,494	29,103	4,157	415,754
TOTAL SALARIES AND RELATED EXPENSES	3,099,084	300,762	34,340	3,434,186
OTHER EXPENSES				
Rent and utilities	\$ 690,597	\$ 77,595	\$ 7,760	775,952
Professional fees	441,125	33,564	4,795	479,484
Direct client expenses	125,996	-	-	125,996
Repairs and maintenance	134,251	5,594	-	139,845
Office expenses	139,472	17,433	17,433	174,338
Telephone	31,996	12,984	1,391	46,372
Travel	64,675	1,320	-	65,995
Insurance	38,740	791	-	39,531
Equipment leases	32,769	6,394	799	39,962
Dues and subscriptions	7,940	2,537	551	11,028
Printing	770	1,210	3,520	5,500
Depreciation	3,968	1,543	-	5,511
Staff training	7,393	225	-	7,618
Interest	11	339	-	350
In-kind contributions	43,160	-	-	43,160
Community Service Awards	11,660	-	-	11,660
Other expenses	244	22,380	1,703	24,327
TOTAL OTHER EXPENSES	1,774,767	183,909	37,953	1,996,629
TOTAL EXPENSES	\$ 4,873,851	\$ 484,671	\$ 72,293	\$ 5,430,815

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2016 and 2015, the temporarily restricted assets are \$39,538 and \$0 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, 2016 and 2015, 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, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015 are \$283,056 and \$138,030 respectively.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2016, 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 October 26, 2016 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, 2016 AND 2015

NOTE 3 – GRANTS AND PROGRAM RECEIVABLES

Grants and program receivables consist of the following:

	June 30,	
	2016	2015
County of Orange	\$ 536,012	\$ 548,939
City of Anaheim	0	6,722
City of Santa Ana	2,100	6,499
Other	46,950	41,901
	\$ 585,062	\$ 604,061

NOTE 4 – FURNITURE AND EQUIPMENT, net

Furniture and equipment consists of the following:

	June 30,	
	2016	2015
Furniture and equipment	\$ 247,922	\$ 247,922
Less: accumulated depreciation	(240,608)	(235,096)
	\$ 7,314	\$ 12,826

For the years ending June 30, 2016 and 2015, depreciation expense was \$5,512 and \$5,511, 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, 2016 and 2015, the accrued vacation balances were \$89,007 and \$58,678, respectively.

NOTE 6 – LINE OF CREDIT

During June 2016, the Association renewed its line of credit from a bank for up to a maximum \$500,000. The interest rate is based on the Wall Street Journal Prime Rate plus 2 index points. As of June 30, 2016 and 2015, the line of credit bears an interest rate of 5.25% and is incurred on outstanding balances and payable on a monthly basis. All assets of the Association excluding the agency fund are collateral for the line of credit. As of June 30, 2016 and 2015, there was no outstanding balance.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2016 and 2015, the Association made contributions to the plan of \$38,971 and \$36,661, 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, 2016 and 2015, total rental expenses were \$938,648 and \$740,824, respectively.

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

Years Ending June 30,	Equipment and service	Rent	Total
2017	\$60,146	\$ 1,038,345	\$ 1,098,491
2018	10,899	850,749	861,648
2019	5,280	541,918	547,198
2020		240,756	240,756
2021		246,667	246,667
2022 and thereafter		124,830	124,830
	\$ 76,325	\$ 3,043,265	\$ 3,119,591

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2016, the Organization had temporarily restricted net assets of \$39,538 for programs.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 10 – CONCENTRATIONS AND CONTINGENCIES

The Association provides services to the area of Orange County, California. For the years ended June 30, 2016 and 2015, the Association received 91% and 92% 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.