

MENTAL HEALTH ASSOCIATION  
OF ORANGE COUNTY

FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Audit of the Financial Statements**

#### *Opinion*

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mental Health Association of Orange County as of June 30, 2022, 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.

#### *Basis for Opinion*

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Mental Health Association of Orange County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

## INDEPENDENT AUDITORS' REPORT (Continued)

### **Responsibilities of Management for the Financial Statements (Continued)**

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mental Health Association of Orange County's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mental Health Association of Orange County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mental Health Association of Orange County's ability to continue as a going concern for a reasonable period of time.

## INDEPENDENT AUDITORS' REPORT (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2023 on our consideration of the Mental Health Association of Orange County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Mental Health Association of Orange County's 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 the Mental Health Association of Orange County's internal control over financial reporting and compliance.



Guzman & Gray, CPAs  
Long Beach, CA  
January 6, 2023

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 755,200	\$ 929,868
Grants and program receivables	698,910	508,541
Prepaid expenses	478	38,810
Total Current Assets	<u>1,454,588</u>	<u>1,477,219</u>
 <b>FURNITURE AND EQUIPMENT, net</b>	 <u>-</u>	 <u>-</u>
 <b>OTHER ASSETS</b>		
Security deposits	<u>75,101</u>	<u>75,101</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 1,529,689</u></u>	 <u><u>\$ 1,552,320</u></u>

LIABILITIES AND NET ASSETS

<b>LIABILITIES</b>		
Accounts payable	\$ 23,542	\$ 82,797
Payroll payable	150,156	145,685
Accrued vacation	121,013	110,710
Liability settlement	175,000	175,000
Total Current Liabilities	<u>469,711</u>	<u>514,192</u>
 <b>NET ASSETS</b>		
Without donor restrictions	996,945	936,781
With donor restrictions	63,033	101,347
	<u>1,059,978</u>	<u>1,038,128</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$ 1,529,689</u></u>	 <u><u>\$ 1,552,320</u></u>

See independent auditors' report and notes to financial statements.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Grant revenues	\$ 6,510,900		\$ 6,510,900
Contributions	100,575	\$ 172,483	273,058
Program revenues	118,955		118,955
Thrift sales	9,643		9,643
In-kind contribution - legal services	338,138		338,138
In-kind contribution - program	57,550		57,550
Interest	8		8
Other Income	10,135		10,135
	7,145,904	172,483	7,318,387
<b>NET ASSETS RELEASED FROM RESTRICTION</b>			
	210,797	(210,797)	-
<b>TOTAL SUPPORT AND REVENUE</b>	7,356,701	(38,314)	7,318,387
<b>EXPENSES</b>			
Program services	6,023,262		6,023,262
Management and general	1,222,856		1,222,856
Fundraising	50,419		50,419
<b>TOTAL EXPENSES</b>	7,296,537		7,296,537
<b>CHANGE IN NET ASSETS</b>	60,164	(38,314)	21,850
<b>BEGINNING NET ASSETS</b>	936,781	101,347	1,038,128
<b>ENDING NET ASSETS</b>	\$ 996,945	\$ 63,033	\$ 1,059,978

See independent auditors' report and notes to financial statements.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Grant revenues	\$ 6,673,545		\$ 6,673,545
Contributions	75,382	\$ 145,700	221,082
Program revenues	33,601		33,601
Thrift sales	9,095		9,095
In-kind contribution - legal services	359,191		359,191
Interest	14		14
Other Income	63		63
	7,150,891	145,700	7,296,591
 <b>NET ASSETS RELEASED FROM RESTRICTION</b>			
	109,076	(109,076)	-
<b>TOTAL SUPPORT AND REVENUE</b>	7,259,967	36,624	7,296,591
 <b>EXPENSES</b>			
Program services	5,923,287		5,923,287
Management and general	1,373,037		1,373,037
Fundraising	44,934		44,934
<b>TOTAL EXPENSES</b>	7,341,258		7,341,258
 <b>CHANGE IN NET ASSETS</b>	(81,291)	36,624	(44,667)
 <b>BEGINNING NET ASSETS</b>	1,018,072	64,723	1,082,795
 <b>ENDING NET ASSETS</b>	\$ 936,781	\$ 101,347	\$ 1,038,128

See independent auditors' report and notes to financial statements.



MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
<b>SALARIES AND RELATED EXPENSES</b>				
Salaries and wages	\$ 2,719,370	\$ 426,912	\$ 32,740	\$ 3,179,022
Payroll taxes	209,897	32,951	2,527	245,375
Employee benefits	410,015	44,689	427	455,131
<b>TOTAL SALARIES AND RELATED EXPENSES</b>	<u>3,339,282</u>	<u>504,552</u>	<u>35,694</u>	<u>3,879,528</u>
<b>OTHER EXPENSES</b>				
Rent and utilities	996,632	149,924	2,907	1,149,463
Professional fees	637,537	158,957	4,997	801,491
Direct client expenses	166,503	-	-	166,503
Repairs and maintenance	124,288	2,977	135	127,400
Program expenses	8,756	-	-	8,756
Office expenses	292,502	14,949	1,256	308,707
Telephone	123,740	24,381	136	148,257
Travel	39,070	369	-	39,439
Insurance	107,840	10,000	696	118,536
Equipment leases	55,508	3,289	25	58,822
Dues and subscriptions	14,268	2,896	524	17,688
Printing	803	291	1,798	2,892
Staff training	18,966	2,821	21	21,808
Interest	-	1,145	-	1,145
Community Service Awards	11,466	-	-	11,466
Other	28,551	8,167	2,230	38,948
In-kind expense - legal services	-	338,138	-	338,138
In-kind expense - program	57,550	-	-	57,550
<b>TOTAL OTHER EXPENSES</b>	<u>2,683,980</u>	<u>718,304</u>	<u>14,725</u>	<u>3,417,009</u>
<b>TOTAL EXPENSES</b>	<u>\$ 6,023,262</u>	<u>\$ 1,222,856</u>	<u>\$ 50,419</u>	<u>\$ 7,296,537</u>

See independent auditors' report and notes to financial statements.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
<b>SALARIES AND RELATED EXPENSES</b>				
Salaries and wages	\$ 3,006,698	\$ 387,611	\$ 32,791	\$ 3,427,100
Payroll taxes	192,918	24,870	2,104	219,892
Employee benefits	450,223	60,388	819	511,430
<b>TOTAL SALARIES AND RELATED EXPENSES</b>	<u>3,649,839</u>	<u>472,869</u>	<u>35,714</u>	<u>4,158,422</u>
<b>OTHER EXPENSES</b>				
Rent and utilities	942,962	162,184	377	1,105,523
Professional fees	565,682	143,095	3,995	712,772
Direct client expenses	73,640	-	-	73,640
Repairs and maintenance	131,264	4,424	132	135,820
Program expenses	3,727	-	-	3,727
Office expenses	130,737	12,731	904	144,372
Telephone	141,286	18,401	100	159,787
Travel	28,876	202	10	29,088
Insurance	108,188	4,464	518	113,170
Equipment leases	64,328	10,574	32	74,934
Dues and subscriptions	16,489	1,491	806	18,786
Printing	731	961	1,676	3,368
Staff training	9,486	1,146	445	11,077
Interest	-	172	-	172
Community Service Awards	1,784	-	-	1,784
Other	54,268	181,132	225	235,625
In-kind expense - legal services	-	359,191	-	359,191
<b>TOTAL OTHER EXPENSES</b>	<u>2,273,448</u>	<u>900,168</u>	<u>9,220</u>	<u>3,182,836</u>
<b>TOTAL EXPENSES</b>	<u>\$ 5,923,287</u>	<u>\$ 1,373,037</u>	<u>\$ 44,934</u>	<u>\$ 7,341,258</u>

See independent auditors' report and notes to financial statements.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 21,850	\$ (44,667)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	-	-
(Increase) decrease in assets:		
Grants receivable	(190,369)	235,316
Prepaid expenses	38,332	148,208
Security deposits	-	-
Increase (decrease) in liabilities:		
Accounts payable	(59,255)	62,578
Payroll payable	4,471	(14,071)
Accrued vacation	10,303	(23,895)
Liability settlement	-	175,000
Deferred revenue	-	(1,500)
Trust liability	-	(165,754)
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(174,668)</b>	<b>371,215</b>
<b>NET CHANGE IN CASH</b>	(174,668)	371,215
<b>BEGINNING CASH</b>	929,868	558,653
<b>ENDING CASH</b>	<b>\$ 755,200</b>	<b>\$ 929,868</b>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>		
<b>INTEREST PAID</b>	<b>\$ 1,145</b>	<b>\$ 172</b>
<b>INCOME TAXES PAID</b>	<b>NONE</b>	<b>NONE</b>

See independent auditors' report and notes to financial statements.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 - ORGANIZATION

The Orange County Association for Mental Health which is doing business as the Mental Health Association of Orange County (the "Association") 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 Association or by the passage of time.

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

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.

Cash Equivalents

For the purpose of the statements of cash flows, 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.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

The Association uses the allowance method to record doubtful receivables. As of June 30, 2022 and 2021, the Association considers its receivables to be fully collectible and there is no allowance for doubtful accounts.

Cash Equivalents

For the purpose of the statements of cash flows, 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.

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.

Revenue Recognition

The Association applies the five-step model to contracts when it is probable that the Association will collect the consideration it is entitled. To determine revenue recognition for arrangements within the scope of ASC Topic 606, Revenue from Contracts with Customers, the Association performs the following five steps: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when or as the Association satisfies a performance obligation. The Association then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when or as the performance obligation is satisfied.

A summary of significant revenue recognition policies are as follows:

Grants and Contributions

The Association recognizes contributions when cash, securities, other assets, or unconditional promise to give are received. Grants and contributions that are not restricted by the grantor or donor are reported as increases in net assets without donor restrictions. Grantor or donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with grantor or donor restrictions are reclassified to net assets without donor restrictions. Grants and donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions. 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.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Program Revenues

Program revenues include fees received for mental health services offered by the Association. Program revenues are recognized at the time the service is provided. Any amounts collected, but unearned, are classified as deferred revenue and recognized as income in the applicable period.

Thrift Sales

Thrift sales are recognized as revenue at the point of sale.

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. The value of these services totaled \$338,138 and \$359,191 for the year ended June 30, 2022 and June 30, 2021, respectively.

Donated goods are recorded as contributions at their estimated fair value at the date of donation. Unless the donor has restricted the donated goods to a specific purpose, such donations are reported as increases in net assets without donor restrictions. For the year ended June 30, 2022, the Association received in-kind contribution of goods. The value of these goods totaled \$57,550 for June 30, 2022.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, grants and program receivable, accounts payable, and accrued liabilities approximate fair value due to their short-term nature.

Fair Value Measurements

The Association follows the provisions of Fair Value Measurements and Disclosures of financial assets and financial liabilities and for fair value 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.

Allocation of Functional Expenses

The costs of program and support services activities have been summarized on a functional basis in the statements of activities and changes in net assets. The statements of functional expenses present the natural classification detail expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Management does not believe the Association has any uncertain tax positions requiring accrual or disclosure at June 30, 2021 and 2020. 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

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958). ASU 2020-07 aims to increase transparency of contributed nonfinancial assets, commonly known as gifts-in-kind, through enhancement to presentation and disclosures. Not-for-Profit entities are required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and to disclose the disaggregation of the amount contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets. Each category is subject to certain additional disclosures. ASU 2020-07 should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The Association's adoption of this new guidance does not have a material impact on the Association's financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within fiscal years beginning after December 15, 2022. The Association is currently evaluating the impact of the adoption of the new standard on the financial statements.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

**NOTE 3 - GRANTS AND PROGRAM RECEIVABLES**

Grants and program receivables consist of the following:

	June 30,	
	2022	2021
County of Orange	\$ 664,635	\$ 471,920
Other	34,275	36,621
	\$ 698,910	\$ 508,541

**NOTE 4 - FURNITURE AND EQUIPMENT, net**

Furniture and equipment consists of the following:

	June 30,	
	2022	2021
Furniture and equipment	\$ 67,748	\$ 67,748
Less: accumulated depreciation	(67,748)	(67,748)
	\$ -	\$ -

There was no depreciation expenses for the years ended June 30, 2022 and 2021.

**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. Accrued vacation at June 30, 2022 and 2021 totaled \$121,013 and \$110,710, respectively.

**NOTE 6 – LIABILITY SETTLEMENT**

In August 2021, the Association entered into a Memorandum of Understanding of Settlement (MOU) agreement relating to Private Attorneys General Act (PAGA) claims brought forth prior to the fiscal year ending June 30, 2021 by certain current and former non-exempt employees of the Association in the amount of \$175,000.

**NOTE 7 - LINE OF CREDIT**

During June 2017, the Association renewed its line of credit from a bank for up to a maximum of \$750,000. The interest rate is based on the Wall Street Journal Prime Rate plus 2 index points. At June 30, 2022 and 2021, 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 restricted cash - held in trust are collateral for the line of credit. There was no balance owed from the line of credit at June 30, 2022 and 2021.



MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

**NOTE 8 - 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, 2022 and 2021, the Association made contributions to the plan of \$26,447 and \$48,977 respectively.

**NOTE 9 - LEASE OBLIGATIONS**

The Association is obligated under the terms of operating leases for the rental of certain facilities. For the years ended June 30, 2022 and 2021, rent expense of these facilities totaled \$1,113,450 and \$1,067,959, respectively. Leases have a cancellation clause option based upon an interruption of funding from contracts.

The Association also entered into lease agreements to rent office equipment. The lease agreements require fixed monthly base rate and variable usage amounts. For the years ended June 30, 2022 and 2021, rent expense of office equipment totaled \$58,822 and \$74,934, respectively.

Future minimum payments, contingent on continued funding from contracts, associated with lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>	<u>Facilities</u>	<u>Total</u>
2023	\$ 9,659	\$ 1,105,966	\$ 1,115,625
2024	1,633	1,028,307	1,029,940
2025	-	752,737	752,737
2026	-	452,903	452,903
2027	-	239,138	239,138
Thereafter	-	80,973	80,973
	<u>\$ 11,292</u>	<u>\$ 3,660,024</u>	<u>\$ 3,671,316</u>

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

**NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes:

	June 30,	
	2022	2021
Electronic Records	\$ 14,538	\$ 39,538
Homeless Programs	37,143	54,837
COVID PPE	6,352	6,772
Wellness West	-	200
Time Restricted	5,000	-
	\$ 63,033	\$ 101,347

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose:

	June 30,	
	2022	2021
Electronic Records	\$ 25,000	\$ -
Homeless Programs	185,178	107,040
COVID PPE	419	2,036
Wellness West	200	-
	\$ 210,797	\$ 109,076

**NOTE 11- CONCENTRATIONS, CREDIT RISKS AND UNCERTAINTIES**

**Concentrations**

The Association provides services to the area of Orange County, California. For the years ended June 30, 2022 and 2021, the Association received 89% and 91%, respectively, 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.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

**NOTE 11- CONCENTRATIONS, CREDIT RISKS AND UNCERTAINTIES**

**(Continued)**

**Credit Risks**

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 and cash equivalents. As of June 30, 2022 and 2021, the cash balances held at financial institutions exceeded the amounts by \$657,751 and \$879,037, respectively.

**Uncertainties**

Even though California's economy is open wherein there are no county tiers, capacity limits, or physical distancing requirements, COVID-19 is not fully contained. As a result, the California Department of Public Health (CDPH) has released guidance related to the COVID-19 pandemic to reduce the risk of COVID-19 infection. Any changes in the COVID-19 pandemic could be subject to the CDPH reinstating certain public restrictive guidelines. The effect of any changes could have an uncertain impact on the Association's financial position and net activities.

**NOTE 12 - CONTINGENCY**

On January 13, 2020, the City of Santa Ana (the "City") sued the Association and the owner of the real property from which the Association operates its homeless center. The City's complaint asserts purported causes of action for public nuisance based on certain contentions by the City. The Association generally disputes and denies the City's contentions and is vigorously contesting the lawsuit. The Association cannot estimate the amount or range of recovery or possible loss in the event of an unfavorable outcome.

**NOTE 13 - 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 June 30, 2022, comprise of the following:

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 13 - LIQUIDITY AND AVAILABILITY (Continued)

Cash	\$ 755,200
Grants and program receivables	<u>698,910</u>
Financial assets, at year end	1,454,110
Less: Donor restrictions	<u>(63,033)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,391,077</u>

NOTE 14 – SUBSEQUENT EVENTS

The Association has evaluated events and transactions for potential recognition or disclosure through January 6, 2023, which represents the date the financial statements were available to be issued.

## SUPPLEMENTARY INFORMATION

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program Award Amount	Revenue Recognized	Disbursements and Expenditures
FEDERAL FUNDING					
United States Department of Health and Human Services (Passed through County of Orange Health Care Agency) Projects for Assistance in Transition from Homelessness (PATH) *	93.150		\$ 589,500	\$ 589,500	\$ 589,500
United States Department of Health and Human Services (Passed through County of Orange Health Care Agency) Substance Abuse & Mental Health Services Administration (SAMHSA)	93.958		249,240	249,240	249,240
Total Federal Funding			<u>\$ 838,740</u>	<u>\$ 838,740</u>	<u>\$ 838,740</u>

\* Major Program

See independent auditors' report.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2022

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**

**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Association under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards. Because the Schedule presents only a selected portion of operations of the Association, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Association.

**NOTE B - 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 contained in Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - INDIRECT COST RATE**

The Association uses a Cost Allocation Plan with an indirect cost rate not exceeding 15%. The Cost Allocation Plan is approved by the County of Orange, California.

**NOTE D - IN-KIND PERSONAL PROTECTIVE EQUIPMENT (PPE)**

The Association did not receive any federally funded in-kind Personal Protective Equipment (PPE) during the year ending June 30, 2022.

# *Guzman & Gray*

Certified Public Accountants

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Patrick S. Guzman, CPA

## 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*

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

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 financial statements of Mental Health Association of Orange County (the "Association") which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2023.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.



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* (Continued)

Internal Control over Financial Reporting (Continued)

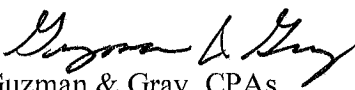
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of 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 not to provide an opinion on the effectiveness of the Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Guzman & Gray, CPAs  
Long Beach, California  
January 6, 2023

# Guzman & Gray

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

### Report on Compliance for Each Major Federal Program

We have audited Mental Health Association of Orange County's (the "Association") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2022. The 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 the 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 the 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 of the Association's compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (Continued)

Opinion on Each Major Federal Program

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Report on Internal Control over Compliance

Management of the 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 audits of compliance, we considered the 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 the Association's internal control over compliance.

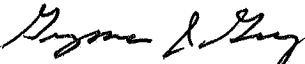
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement 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 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 charged 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 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.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (Continued)

Purpose of this Report

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.

  
Guzman & Gray, CPAs  
Long Beach, CA  
January 6, 2023

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2022

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	yes	<input checked="" type="checkbox"/> no
Significant deficiency identified that is not considered to be material weaknesses?	yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:		
Material weakness identified?	yes	<input checked="" type="checkbox"/> no
Significant deficiency identified that is not considered to be a material weakness?	yes	<input checked="" type="checkbox"/> none reported

Type of auditors' report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)7	yes	<input checked="" type="checkbox"/> no
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Identification of major programs:

<u>CFDANumber</u>	<u>Name of Federal Program or Cluster</u>
93.150	Projects for Assistance in Transition from Homelessness (PATH)

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?	X yes	no
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MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2022

SECTION II- FINDINGS - FINANCIAL STATEMENT AUDIT

There were no financial statement findings required to be reported in accordance with Government Auditing Standards.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no major federal award program findings required to be reported by 2 CFR section 200.516(a).

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY  
SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2022

There were no prior year audit findings or questioned costs relative to federal awards.