Report of Independent Auditors and
Financial Statements with
Supplemental Information

Momentum for Health

June 30, 2022

MOSSADAMS

Table of Contents

Report of Independent Auditors

To the Board of Directors
Momentum for Health

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Momentum for Health, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Momentum for Health, as of June 30, 2022, and the results of its operations 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Momentum for Health, 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 opinion.

Other Matter

Prior Period Financial Statements

The financial statements of Momentum for Health as of and for the year ended June 30, 2021 were audited by other auditors whose report thereon dated September 29, 2021, expressed an unmodified opinion on those financial statements.

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.

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 Momentum for Health's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 GAAS 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 GAAS, 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 Momentum for Health'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 Momentum for Health's ability to continue as a going concern for a reasonable period of time.

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.

Moss Adams LLP

San Francisco, California
December 1, 2022

Financial Statements

Momentum for Health
Statements of Financial Position
June 30, 2022 and 2021

ASSETS

	2022	2021
Current assets		
Cash and cash equivalents	$ 2,272,230	$ 8,314,788
Patient accounts receivable, net	3,187,418	763,484
Grants receivable	4,423,239	4,424,601
Short-term investments	8,698,618	5,463,624
Prepaid expenses and other assets	473,852	462,715
Total current assets	19,055,357	19,429,212
Property and equipment, net	35,945,847	36,483,140
Other assets	750,151	733,334
Total assets	$ 55,751,355	$ 56,645,686

LIABILITIES AND NET ASSETS

	2022	2021
Current liabilities		
Accounts payable and accrued expenses	$ 1,984,005	$ 2,643,384
Accrued salaries and vacation	5,979,580	6,493,567
Deposits held	50,843	72,709
Accrued interest, current portion	20,380	20,830
Notes payable, current portion	363,214	406,957
Other liabilities	79,486	32,874
Total current liabilities	8,477,508	9,670,321
Long-term liabilities		
Accrued interest, net of current portion	1,067,441	1,022,407
Notes payable, net of current portion	13,783,635	22,436,257
Other long-term liabilities	3,367,196	3,367,196
Total long-term liabilities	18,218,272	26,825,860
Total liabilities	26,695,780	36,496,181
Net assets		
Without donor restrictions	29,041,965	20,135,895
With donor restrictions	13,610	13,610
Total net assets	29,055,575	20,149,505
Total liabilities and net assets	$ 55,751,355	$ 56,645,686

See accompanying notes.

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and other support:		
Government grants and fees	$ 45,767,006	$ 43,879,283
Investment return, net	(3,926)	17,611
Patient services revenue, net	8,653,236	7,621,250
Contributions	513,273	513,440
Net assets released from restrictions	-	5,762
Total revenues and other support	54,929,589	52,037,346
EXPENSES		
Program services		
Crisis and transitional residential	12,623,981	12,389,557
Outpatient services	35,717,887	33,252,123
Day treatment services	-	323,120
Total program services	48,341,868	45,964,800
Support services		
Management and general	9,531,728	11,710,013
Fundraising	604,028	428,572
Total support services	10,135,756	12,138,585
Total expenses	58,477,624	58,103,385
OPERATING LOSS	(3,548,035)	(6,066,039)
OTHER INCOME (LOSS)		
Rental income	921,221	973,249
Gain on forgiveness of Paycheck Protection Program loan	-	7,852,005
Gain from sale of property & equipment	11,001,893	-
Miscellaneous income	530,991	86,222
Total other income	12,454,105	8,911,476
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	8,906,070	2,845,437
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Net assets released from restrictions	-	(5,762)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	-	(5,762)
CHANGE IN NET ASSETS	8,906,070	2,839,675
NET ASSETS, beginning of year	20,149,505	17,309,830
NET ASSETS, end of year	$ 29,055,575	$ 20,149,505

See accompanying notes.

Momentum for Health
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 8,906,070	$ 2,839,675
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	933,820	711,855
Gain from sale of property & equipment	(11,001,893)	-
Loss on extinguishment of bond payable	-	137,335
Investment losses (income), net	3,926	(11,440)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,423,934)	1,113,357
Grants receivable	1,362	3,540,390
Prepaid expenses and other assets	(11,137)	(158,276)
Deposits	(38,683)	(110,636)
Other liabilities	46,612	32,874
Accounts payable and accrued liabilities	(1,173,816)	4,096,199
Net cash (used in) provided by operating activities	(4,757,673)	12,191,333
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	3,748,000	4,100,000
Purchase of investments	(6,986,920)	(7,500,000)
Proceeds from sale of property & equipment	5,812,683	-
Acquisition of property & equipment	(3,607,317)	(10,261,088)
Net cash used in investing activities	(1,033,554)	(13,661,088)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in funds held for bonds	-	1,699,157
Proceeds from issuance of long-term debt	-	4,500,000
Payments on long-term debt	(251,331)	(2,165,361)
Repayment of line of credit	-	(1,000,000)
Net cash (used in) provided by financing activities	(251,331)	3,033,796
CHANGES IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(6,042,558)	1,564,041
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	8,314,788	6,750,747
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 2,272,230	$ 8,314,788
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 332,838	$ 412,057
Assets acquired via loan	$ -	$ 16,800,000
Note payable paydown through sale of property & equipment	$ 8,400,000	$ -

 See accompanying notes.

NOTE 1 – ORGANIZATION

Momentum for Health (the "Agency") is a California nonprofit corporation, formed in 1997 to help individuals achieve mental and emotional health, discover and reach their potential, and fully participate in life. Through staff and volunteers, collaboration with other agencies, client fees, public and private contributions, and grants from federal, state and local government agencies, the Agency provides services to people with mental disorder and substance addiction in Northern California through several programs serving youth, adults, and older adults.

These include residential programs and housing services that range from crisis care and licensed residential care. To supporting independent living in the community. The outpatient services are provided by the teams of mental health care professionals and paraprofessionals and include case management, medication, mental health treatment, substance addiction treatment, and crisis intervention. The Agency has a specialized integrated service program that offers residential and outpatient services for people with mental illness who have become involved with the justice system. Day rehabilitation services provide life skills education, activities, peer support, and socialization. Youth and family programs include outpatient services for youth, with focus on the family. Finally, vocational services provide employment assessment, job placement, and assistance for clients to obtain and maintain employment.

Momentum for Health serves approximately 4,400 individuals annually throughout Santa Clara County. The Agency's staff represents over 50 cultures, languages and dialects, as well as American Sign Language.

The Board of Directors of Momentum for Health control a California non-profit organization, Homebase Homes, Inc. The accompanying financial statements exclude the financial position and results of operations of Homebase Homes, Inc. Key financial data for Homebase Homes, Inc. as of June 30:

	2022	2021
Statements of financial position		
Assets	$ 734,000	$ 720,000
Liabilities	$ 853,000	$ 865,000
Net deficit	(119,000)	(145,000)
	$ 734,000	$ 720,000
Statements of Activities and Changes in Net Assets		
Revenue	$ 295,000	$ 320,000
Expenses	304,000	316,000
Change in net assets	$ (9,000)	$ 4,000

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, support and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Agency and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor timing or purpose restrictions. Investment earnings are recorded as net assets without donor restrictions for certain restricted funds in accordance with the Agency's spending rule and for certain funds in accordance with donor stipulations. There were no board designated net assets as of June 30, 2022 and 2021.

Net assets with donor restrictions – Net assets subject to donor imposed stipulations that may, or will be met, either by actions of the Agency and/or the passage of time. Net assets subject to donor imposed restrictions also represent cash and cash equivalents that are subject to gift instrument restrictions that require the principal to be invested in perpetuity. All net assets with donor restrictions are expected to be released from restriction by June 30, 2023.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue, and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include highly liquid cash and cash equivalents with remaining terms to maturity of three months or less at the date of acquisition.

Patient accounts receivable, net – Patient accounts receivable are recorded at amounts that reflect the consideration to which the Agency expects to be entitled in exchange for providing patient care. In evaluating the collectability of patient accounts receivable, the Agency regularly analyzes its past history and identifies and reviews trends for each of its major payor sources of revenue to estimate appropriate and sufficient implicit and explicit price concessions reflected in patient accounts receivable. For receivables associated with private-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Agency records a significant implicit price concession in the period of services on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is reflected as a reduction in patient accounts receivable.

Grants receivable – Grants receivable consists primarily of contract fees and grant reimbursements due to the Agency. Management believes that all receivables are collectable within one year and, therefore, an allowance for uncollectable receivables and discount are not recorded.

Concentrations of credit risk – The Agency maintains cash balances at local financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times during the year, the Agency held cash and cash equivalent balances in excess of federally insured limits.

Investments – The investments of the Agency are comprised of mutual funds and certificate of deposits. Donated investments are immediately converted to cash and the net proceeds are recorded at the date of receipt. The recorded amount represents estimated fair market value at donation date.

Property, building, and equipment – Land, building and equipment are carried at cost or estimated fair value at date of acquisition. The Agency capitalizes all acquisitions greater than $1,000. Depreciation is calculated by the straight-line method over the estimated useful life of the improvement or the term of the lease, whichever is less. Depreciation is recorded when construction is substantially complete, and the assets are placed in service. Estimated useful lives are as follows:

Buildings and improvements	10 to 39 years
Equipment	3 to 7 years

The Agency periodically evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset. During the years ended June 30, 2022 and 2021, no asset impairment was recognized.

Other assets – Other assets primarily consist of security deposits for the office and housing leases, vendors, as well as workers compensation.

Other liabilities – Other liabilities primarily consist of deferred rent from the Agency’s facility leases, as well as

Revenue recognition – Government grants and fees - The Agency receives cost reimbursement contract revenue as well as fixed rate contract revenue. Revenue is recognized when the corresponding service has been provided according to the agreement, subject to the contract limit, if any. Under fixed rate contracts, the Agency agrees to provide certain services in specified quantities at a prescribed rate per unit of service provided. Certain contracts have provisions for annual settlements to provide for recovery of costs for service capacity required to be provided, but not utilized, and for repayment of amounts billed in excess of contract limits. Estimated settlements are accrued by the Agency as other long-term liabilities for contracts for which cost reports have not been finalized. The carrying amounts for grant receivable and payable reported in the statements of financial position approximate fair values as all amounts are expected to be received or paid within one year. At June 30, 2022 and 2021, receivables from the County of Santa Clara represents 91% of grants receivable for both years.

Patient services revenue, net – Patient service revenue is reported at the amount that reflects the consideration to which the Agency expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Agency bills the patients and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Agency. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Agency believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Agency has elected to apply the optional exemption provided in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Agency determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Agency's sliding fee policy, and implicit price concessions provided to uninsured patients.

The Agency determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Agency determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

For changes in credit issues not assessed at the date of service, such as a payor files for bankruptcy or a patient defaults on a payment plan, the Agency recognizes these write-offs as bad debt expense, which is presented on the accompanying statements of activities and changes in net assets as a component of other expenses.

Compliance with such laws and regulations are subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from Medicare and/or Medi-Cal programs.

The Agency believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such significant regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and/or Medi-Cal programs.

Contributions – Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as with donor restrictions, or without donor restrictions depending on the nature of donor restrictions. Donor restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

Rental income – Rental income is recognized according to the terms of the underlying leases. Rental revenue is recognized over the term of the related lease.

Performance indicator – "Operating income (loss)" as reflected in the statements of activities and changes in net assets is the performance indicators. Amounts excluded from the performance indicator, consistent with industry practice, include other income or losses and other restricted activities.

Income taxes – The Agency is a nonprofit corporation under Internal Revenue Code Section 501(c)(3) and has been granted tax-exempt statuses by the Internal Revenue Service and the California Revenue and Taxation Code. As of June 30, 2022, the Agency had no unrecognized tax positions or uncertain tax positions requiring accrual. Therefore, no provision for income taxes has been provided in the financial statements.

New accounting pronouncements – In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use (ROU) asset and lease liability, initially measured at the present value of the lease payments, in the statement of financial position. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Agency's leasing activities. ASU 2016-02 is effective for the Agency for the fiscal year ending June 30, 2023. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU 2020-07 should be applied on a retrospective basis and is effective for the Agency for the year ended June 30, 2022. The adoption of ASU 2020-07 did not have a material impact on the Agency's financial statements.

NOTE 3 – LIQUIDITY

The following table reflects the Agency's financial assets as of June 30, which are available for general expenditure within one year:

	2022	2021
Financial assets at year end		
Cash and cash equivalents	$ 2,272,230	$ 8,314,788
Patient accounts receivables, net	3,187,418	763,484
Grants receivable	4,423,239	4,424,601
Short-term investments	8,698,618	5,463,624
Less financial assets with donor restrictions	(13,610)	(13,610)
Total financial assets available to meet cash needs for general expenditures within one year	$ 18,567,895	$ 18,952,887

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The Agency has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Agency also has available a line of credit facility, secured by real property, of up to $3,000,000 maturing January 6, 2024.

NOTE 4 – INVESTMENTS

FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices for valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (inputs are supported by little or no market activity).

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Investments – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics, or discounted cash flows. In certain cases, where Level 1 or 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Agency does not have investments classified as Level 3.

The following tables present the fair value measurements of assets and liabilities recognized in the statement of financial position measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at June 30:

	Level 1	Level 2	Level 3	2022
Cash and cash equivalents	$ 8,660	$ -	$ -	$ 8,660
Certificate of deposits	-	7,000,000	-	7,000,000
Mutual funds - fixed income	-	1,632,168	-	1,632,168
Mutual funds - equity securities	57,790	-	-	57,790
Total	$ 66,450	$ 8,632,168	$ -	$ 8,698,618

	Level 1	Level 2	Level 3	2021
Cash and cash equivalents	$ 2,330,902	$ -	$ -	$ 2,330,902
Certificate of deposits	-	2,000,000	-	2,000,000
Mutual funds - fixed income	-	1,074,949	-	1,074,949
Mutual funds - equity securities	57,773	-	-	57,773
Total	$ 2,388,675	$ 3,074,949	$ -	$ 5,463,624

Investment income, net is presented net of external and direct investment expenses. Investment income and realized and unrealized gains and losses consist of the following for the year ended June 30, 2022:

	2022	2021
Interest and dividends	$ 22,810	$ 13,827
Realized loss on investments	(7,011)	-
Net unrealized (loss)/gain on investments	(19,725)	3,784
Investment return, net	$ (3,926)	$ 17,611

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net at June 30, 2022 and 2021, are as follows:

	2022	2021
Land and improvements	$ 14,281,331	$ 14,237,078
Building and improvements	29,296,279	33,292,784
Furniture, equipment and improvements	1,470,877	758,357
Vehicles	227,698	177,500
	45,276,185	48,465,719
Accumulated depreciation	(9,330,338)	(11,982,579)
Total	$ 35,945,847	$ 36,483,140

Depreciation expense for the years ended June 30, 2022 and 2021, were $933,820 and $711,855, respectively.

NOTE 6 – PAYROLL AND RELATED LIABILITIES

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Agency. The value of accrued vacation at June 30, 2022 and 2021, is $2,990,893 and $2,707,988, respectively, included in accrued salaries ad vacation in the statements of financial position.

Full-time employees accrue 120 to 248 hours of flexible time off (FTO), depending on length of employment and representation status. The FTO hours may be used for vacation, sick leave, family emergencies, religious observances, preventive health or dental care, and personal time. Upon termination, employees are compensated for unused FTO hours. In addition, all employees receive 80 hours of holiday time off (HTO) annually. HTO may be used for the same purposes as FTO, but may not be carried forward nor are employees compensated for unused HTO upon termination. Benefited part-time employees receive the FTO and HTO benefits on a prorated basis.

NOTE 7 – LEASE COMMITMENTS

The Agency is obligated under five long-term facility leases, expiring through December 2026, and various month-to-month facility leases for program facilities. The total expenses incurred under these leases for the years ended June 30, 2022 and 2021 was $1,922,912 and $1,565,062, respectively.

Future minimum lease payments are as follows at June 30:

Year Ending June 30,	
2023	$ 1,918,697
2024	1,320,460
2025	876,431
2026	559,357
2027	169,723
Thereafter	-
Total	$ 4,844,668

The Agency is also has several noncancellable office facility leases for real property located in San Jose. Rental income for these office facility leases were $709,388 and $614,722 for the years ended June 30, 2022 and 2021, respectively, as included in rental income in the statements of activities and changes in net assets. The future minimum rental income to be received from these agreements are as follows:

Year Ending June 30,	
2023	$ 451,334
2024	219,692
2025	19,280
2026	-
Total	$ 690,306

NOTE 8 – NOTES PAYABLE

Notes payable are as follows as of June 30:

	2022	2021
California Department of Housing and Community Development, secured by real property. The loan bears interest at 3% and matures in a lump sum in June 2041	$ 195,285	$ 195,285
California Enterprise Development Authority, secured by personal and real property. The loan bears interest at 3% and matures in January 2051, principal payments ranging from $222,000 - $245,000.	8,035,741	8,332,106
U.S. Department of Housing and Urban Development, secured by real property. The loan bears interest at 3% and matures in a lump sum in June 2028	119,005	119,005
State of California, secured by real property. The loan bears interest at 3% and matures in a lump sum in June 2028.	651,107	651,107
State of California, secured by real property. The loan bears interest at 3% and matures in a lump sum in October 2032.	104,000	104,000
First Republic Bank, secured by real property. The loan bears interest at 3.5% and matures in June 2051, principal payments ranging from $118,000 - $136,000.	4,500,000	4,500,000
Private party, secured by real property. The loan bears interest at 4.25% and matures in September 2022. Paid off during fiscal year ended June 30, 2022.	-	8,400,000
U.S. Department of Housing and Urban Development, passed through City of Sunnyvale, secured by real property. The loan bears interest at 3% and matures in a lump sum in November 2041.	431,714	431,714
Housing Trust of Santa Clara County, secured by real property. The loan does not bear any interest and matures in a lump sum in August 2043.	109,997	109,997
	14,146,849	22,843,214
Less: current portion	363,214	406,957
Long-term debt, net of current portion	$ 13,783,635	$ 22,436,257

Terms of the California Enterprise Development Authority ("CEDA") loan require the Agency to maintain certain financial measurements and conditions. As of June 30, 2022 and 2021, management believes the Agency was in compliance with these requirements. The Agency paid off in full the $8,400,000 private party note payable on August 31, 2021 in conjunction with the sale of the real property located at 2001 The Alameda, San Jose.

Future principal payments are as follows for the years ended June 30:

Year Ending June 30,	
2023	$ 363,214
2024	362,094
2025	360,459
2026	359,049
2027	357,619
Thereafter	12,344,414
Total	$ 14,146,849

The Agency also has available a line of credit, secured by real property, up to $3,000,000 maturing January 6, 2024, at interest rate of 4.75% and 3.25% as of June 30, 2022 and 2021, respectively. Terms of this facility require the Agency to maintain certain financial measurements and conditions. As of June 30, 2022 and 2021, management believes the Agency was in compliance with these requirements.

NOTE 9 – CONCENTRATION OF CREDIT RISK

At times during the fiscal years ended June 30, 2022 and 2021, the Agency maintained cash balances in excess of insured levels at various financial institutions. In addition, approximately 81%, for the years ended June 30, 2022 and 2021, respectively, of the Agency's operating revenue base is derived from its largest government contractor. Agency management believes that any potential disallowance of previously funded program costs is immeasurable and immaterial. Approximately 75% of the Agency's employees are covered under membership in a collective bargaining agreement which expires October 2025.

The mix of accounts receivables at June 30, 2022 and 2021, from patients and third-party payors was as follows:

	2022	2021
Commercial	89%	74%
Private-pay	11%	26%
	100%	100%

NOTE 10 – RETIREMENT PLAN

The Agency maintains a 403(b) thrift plan, which after completion of one year of service, provides for a company match ranging from 4 to 9% of a participant's salary. The Agency contributed $1,202,097 and $1,284,780 during the years ended June 30, 2022 and 2021, respectively. These matches have a five-year graduated vesting provision.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Litigation, malpractice, and workers' compensation claims –. The Agency has on-going litigation claims as result of its normal course of operations; however, in the opinion of management, these claims will be fully covered by the Agency's insurance and will not have a material adverse effect upon the financial statements. Included in accrued expenses as of June 30, 2022 and 2021, are $628,919 and $1,000,000 designated for cyber security infrastructure, transcranial magnetic stimulation program development and start up, and potential labor settlement issues.

Risks and uncertainties – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Agency is subject to similar regulatory reviews, there are no reviews currently underway, and management believes that the outcome of any potential regulatory review will not have a material adverse effect on the Agency's financial position or changes in activities.

Related party transactions – The Agency had advanced $3,336 and $1,765 to Homebase Homes, Inc. as of June 30, 2022 and 2021, respectively, and charged $21,407 and $21,184, for the years ended June 30, 2022 and 2021, respectively, for services and expenses.

COVID-19 pandemic – In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, their patients and customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including the Agency's operations.

The Agency's management has been closely monitoring the impact of COVID-19 on the Agency's operations, including the impact on its patients and employees. The duration and intensity of the pandemic is uncertain but may influence patient decisions, grantor or donor decisions, and may also negatively impact collections of the Agency's receivables.

The Patient Protection and Affordable Care Act ("PPACA") allowed for the expansion of Medicaid members in the State of California. Any further federal or state funding changes could have an impact on the Agency. With the changes in the executive branch, the future of PPACA and impact of future changes in Medicaid to the Agency is uncertain at this time.

NOTE 12 – FUNCTIONAL EXPENSES

Expenses directly identifiable with programs are charged to program services based upon employee's time for each function, purpose of each expenditure, and/or services provided for each program. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Agency.

Functional expenses related to providing these services for the years ended June 30 are as follows:

	2022					
	Program Services			Support Services		
	Crisis and transitional services	Outpatient services	Total program services	Management and general	Fundraising	Total expenses
Salary and wages	$ 8,068,008	$ 24,898,314	$ 32,966,322	$ 5,510,622	$ 349,392	$ 38,826,336
Employee benefits	1,005,733	2,941,495	3,947,228	742,842	52,874	4,742,944
Payroll taxes	900,289	1,998,466	2,898,755	436,745	28,685	3,364,185
Total salaries and related expenses	9,974,030	29,838,275	39,812,305	6,690,209	430,951	46,933,465
Professional fees	167,842	335,264	503,106	1,151,745	82,241	1,737,092
Supplies	670,696	262,212	932,908	87,098	3,625	1,023,631
Telephone	89,175	252,762	341,937	209,004	3,835	554,776
Postage and shipping	263	1,876	2,139	6,444	880	9,463
Occupancy	1,045,262	2,127,086	3,172,348	616,107	12,955	3,801,410
Equipment rent and maintenance	47,394	78,574	125,968	45,609	3,342	174,919
Printing, subscriptions and publications	364	2,628	2,992	28,007	19,052	50,051
Travel and transportation	65,215	224,181	289,396	40,089	324	329,809
Conference, conventions and meetings	13,911	16,580	30,491	94,063	2,617	127,171
Specific assistance	24,533	1,385,423	1,409,956	-	-	1,409,956
Memberships, dues and licenses	350	42	392	48,834	-	49,226
Interest expense	45,034	290,762	335,796	172,602	-	508,398
Advertising and recruitment	5,001	19,162	24,163	44,189	616	68,968
Insurance	194,683	353,687	548,370	106,661	12,161	667,192
Depreciation	269,812	504,418	774,230	153,317	6,273	933,820
Miscellaneous expenses	10,416	24,955	35,371	37,750	25,156	98,277
TOTAL EXPENSES	$ 12,623,981	$ 35,717,887	$ 48,341,868	$ 9,531,728	$ 604,028	$ 58,477,624

	2021						
	Program Services				Support Services		
	Crisis and transitional services	Outpatient services	Day treatment services	Total program services	Management and general	Fundraising	Total expenses
Salary and wages	$ 7,673,406	$ 22,992,581	$ 247,045	$ 30,913,032	$ 5,916,128	$ 250,750	$ 37,079,910
Employee benefits	958,759	2,954,686	24,782	3,938,227	761,500	37,861	4,737,588
Payroll taxes	807,369	1,873,255	24,663	2,705,287	358,429	20,050	3,083,766
Total salaries and related expenses	9,439,534	27,820,522	296,490	37,556,546	7,036,057	308,661	44,901,264
Professional fees	17,998	700,370	-	718,368	1,944,547	44,628	2,707,543
Supplies	716,602	378,361	809	1,095,772	124,592	6,836	1,227,200
Telephone	83,779	262,260	1,038	347,077	97,249	5,876	450,202
Postage and shipping	656	3,233	56	3,945	5,044	1,077	10,066
Occupancy	1,094,751	1,674,028	10,631	2,779,410	526,895	13,020	3,319,325
Equipment rent and maintenance	66,450	78,737	2,693	147,880	23,096	1,342	172,318
Printing, subscriptions and publications	1	1,818	-	1,819	10,995	13,509	26,323
Travel and transportation	61,516	192,804	-	254,320	26,158	-	280,478
Conference, conventions and meetings	4,841	26,660	-	31,501	39,971	983	72,455
Specific assistance	32,014	1,157,140	-	1,189,154	56	-	1,189,210
Memberships, dues and licenses	828	-	-	828	99,789	-	100,617
Interest expense	61,665	340,803	649	403,117	16,944	305	420,366
Amortization of bond costs	-	-	-	-	137,335	-	137,335
Advertising and recruitment	4,634	23,245	-	27,879	28,948	16,091	72,918
Insurance	191,872	300,028	7,473	499,373	79,755	3,985	583,113
Bad debts	323,570	60,000	-	383,570	1,237,858	-	1,621,428
Depreciation	273,638	210,270	3,281	487,189	222,484	2,182	711,855
Miscellaneous expenses	15,208	21,844	-	37,052	52,240	10,077	99,369
TOTAL EXPENSES	$ 12,389,557	$ 33,252,123	$ 323,120	$ 45,964,800	$ 11,710,013	$ 428,572	$ 58,103,385

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Agency recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Agency’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

The Agency executed a purchase agreement in August of 2022 with Parisi House on the Hill, Inc., to expand its substance abuse treatment services.

The Agency has evaluated subsequent events through December 1, 2022, which is the date the financial statements were available to be issued.

MOSSADAMS