MENTAL HEALTH ASSOCIATION

IN SANTA BARBARA COUNTY

Financial Statements for the Year of December 31, 2017

and Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Mental Health Association in Santa Barbara County
Santa Barbara, California

I have audited the accompanying financial statements of the Mental Health Association in Santa Barbara County, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence that I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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Opinion

In my opinion, the financial statements referred to above present fairly, in all material respect, the financial position of the Mental Health Association in Santa Barbara County as of December 31, 2017, 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.

Report on Summarized Comparative Information

I have previously audited the Mental Health Association in Santa Barbara County's 2016 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated August 10, 2017. In my opinion, the summarized comparative information presented herein as of and for the year December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gary A. Smith

Santa Barbara, California
August 10, 2018

MENTAL HEALTH ASSOCIATION IN SANTA BARBARA COUNTY
Statement of Financial Position
December 31, 2017
(With comparative totals for 2016)

ASSETS

	2017	2016
Current assets:		
Cash and cash equivalents	$ 195,487	$ 350,937
Accounts receivable	502,623	346,016
Grants and pledges receivable (Note 3)	57,112	176,294
Advances	22,500	
Prepaid expenses	49,121	31,817
Total current assets	826,843	905,064
Grants and pledges receivable, net of current portion (Note 3)	187,323	118,428
Property and equipment, net (Note 4)	5,111,432	4,043,051
Investments (Note 5)	461,361	881,012
Other assets:		
Management fee receivable from Garden Street Apartments, L.P.	114,634	101,587
Affordable Housing Program (AHP) loan receivable (Note 6)	357,000	357,000
Developer fee receivable (Note 7)	500,949	603,790
Advances to MHA Garden Street Apartments, L.P. for construction and improvements (Note 8)	2,118,197	2,118,197
Accrued interest receivable	510,827	435,257
Investment in MHA Garden Street Apartments, L.P. (Note 9)	1,931,740	1,931,819
Total other assets	5,533,347	5,547,650
Total assets	$ 12,120,306	$ 11,495,205

LIABILITIES AND NET ASSETS

	2017	2016
Current liabilities:		
Accounts payable	$ 18,908	$ 13,771
Accrued salaries and vacation pay	109,161	100,612
Payable to County of Santa Barbara	27,495	65,225
Current portion of elimination loan	8,333	8,333
Current portion of long-term debt	28,647	10,000
Total current liabilities	192,544	197,941
Other liabilities:		
Affordable Housing Program (AHP) loan payable (Note 10)	357,000	357,000
Elimination loan, net of current portion (Note 11)	111,806	120,139
Notes and leases payable, net of current portion (Note 12)	973,602	40,000
Security deposits	9,099	8,831
Total other liabilities	1,451,507	525,970
Net assets		
Unrestricted (Note 13)	10,137,863	10,366,815
Temporarily restricted (Note 14)	269,435	335,522
Permanently restricted (Note 15)	68,957	68,957
Total net assets	10,476,255	10,771,294
Total liabilities and net assets	$ 12,120,306	$ 11,495,205

See notes to financial statement.

MENTAL HEALTH ASSOCIATION IN SANTA BARBARA COUNTY

Statement of Activities and Changes in Net Assets
Year ended December 31, 2017
(With comparative totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
Revenue, gains and other support:					
Contributions	$ 174,318	$ 57,112	$ -	$ 231,430	$ 275,134
Grants	215,950	68,750		284,700	419,375
Bequest	23,678			23,678	18,000
Resident fees	185,812			185,812	120,932
Fees received from Garden Street Apartments, L.P.	190,316			190,316	189,676
Property management fees received from Garden Street Owners' Association	17,580			17,580	17,580
Fees for services	20,543			20,543	28,771
Government contracts	1,845,395			1,845,395	1,782,694
Miscellaneous	10,126			10,126	3,016
Rental income	567			567	6,804
Interest income from Garden Street Apartments, L.P.	97,730			97,730	95,626
Other interest and dividends	1,067			1,067	1,490
Realized and unrealized gains on investments	547			547	85
Released from restrictions for program purposes	191,949	(191,949)			
Total revenues, gains and other support	2,975,578	(66,087)	-	2,909,491	2,959,183
Expenses:					
Program services	2,642,368			2,642,368	2,326,118
Management and general	121,916			121,916	208,029
Fundraising	440,246			440,246	319,752
Total expenses	3,204,530	-	-	3,204,530	2,853,899
Change in net assets	(228,952)	(66,087)		(295,039)	105,284
Net assets, beginning of year	10,366,815	335,522	68,957	10,771,294	10,666,010
Net assets, end of year	$ 10,137,863	$ 269,435	$ 68,957	$ 10,476,255	$ 10,771,294

See notes to financial statements.

MENTAL HEALTH ASSOCIATION IN SANTA BARBARA COUNTY

Statement of Functional Expenses

Year ended December 31, 2017

(With comparative totals for 2016)

	Program Services	Management and General	Fund Raising	2017 Total	2016 Total
Salaries and benefits	$ 1,479,498	$ 301,417	$ 199,230	$ 1,980,145	$ 1,841,562
Professional fees	75,189	20,183	44,966	140,338	165,133
Food	81,184	2,786	23,402	107,372	94,558
Supplies	38,929	15,605	20,935	75,469	58,609
Other operating expenses	109,428	45,860	25,281	180,569	152,103
Occupancy	360,194	76,817	22,857	459,868	382,709
Depreciation	118,180	35,986	5,073	159,239	147,228
Interest	30,030			30,030	8,888
Advertising and marketing	12,199	1,323	27,978	41,500	3,109
Provision for uncollectable pledges			30,000	30,000	
Allocation of management and general expenses	337,537	(378,061)	40,524		
Total expenses	$ 2,642,368	$ 121,916	$ 440,246	$3,204,530	$ 2,853,899

See notes to financial statements.

MENTAL HEALTH ASSOCIATION IN SANTA BARBARA COUNTY

Statement of Cash Flows

Year ended December 31, 2017

(With comparative totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ (295,039)	$ 105,284
Non cash expenses included in change in net assets:		
Depreciation and amortization	159,239	147,228
Amortization of elimination loan	(8,333)	(8,334)
Loss from investment in Garden Street Apartments, L.P.	79	77
Realized and unrealized gains on investments	(547)	(85)
Donated securities		(5,514)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(106,320)	(189,963)
Bequest receivable		104,333
Management fee receivable	(13,047)	(12,667)
Prepaid expenses	(17,304)	(2,038)
Increase (decrease) in:		
Accounts payable	5,137	6,100
Accrued salaries and vacation pay	8,549	21,117
Payable to County of Santa Barbara	(37,730)	65,225
Security deposits	268	(2,724)
Increase in accrued interest receivable	(75,570)	(70,888)
Cash provided (used) by operating activities	(380,618)	157,151
Cash flows from investing activities:		
Advances	(22,500)	
Purchase of property and equipment	(255,620)	(44,796)
Payments received on developer fee receivable	102,841	70,262
Change in cash held for investments	414,098	(105,303)
Sale of investments	6,100	5,210
Cash provided (used) by investing activities	244,919	(74,627)
Cash flows from financing activities:		
Payments on long-term debt	(19,751)	(284,503)
Cash used by financing activities	(19,751)	(284,503)
Net increase (decrease) in cash	(155,450)	(201,979)
Cash and cash equivalents, beginning of year	350,937	552,916
Cash and cash equivalents, end of year	$ 195,487	$ 350,937
Supplemental disclosures:		
Cash paid for interest	$ 26,905	$ 8,888
Cash paid for taxes	$ 3,803	$ 1,600
Supplemental disclosure of non-cash activities:		
Improvements related to lease obligation	$ -	$ 80,000
Land and building, acquired through debt financing	$ 972,000	$ -

See notes to financial statements.

Note 1: Nature of activities

Mental Health Association in Santa Barbara County (the "Association") provides board and care for residents living in housing facilities, provides social and rehabilitation programs to residents and other individuals, and manages an affordable housing complex for people with mental health disabilities.

The financial statements also include the accounts of Building Hope, LLC, and Building Hope II, LLC, both 100% owned limited liability companies. Building Hope, LLC is the general partner and has a .009% interest in MHA Garden Street Apartments, L.P. ("Partnership"), a limited partnership. As used herein, "Association" includes Mental Health Association of Santa Barbara County, Building Hope, LLC, and Building Hope II, LLC.

Note 2: Summary of significant accounting policies.

Restricted Net Assets. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Donated Services. Numerous volunteers have donated to the Association's program services during the year; however, these donated services are not reflected in the financial statements since they do not meet the recognition criteria.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Summarized Information. The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2014 from which the summarized information was derived.

Cash and Cash Equivalents. All highly liquid investments, with a maturity of three months or less when purchased, are considered to be cash equivalents.

Concentration of Credit Risk. Financial instruments that potentially subject the Association to concentrations of credit risk consist of cash and cash equivalents and receivables. The Association maintains cash in money market accounts that are not federally insured and bank deposit accounts which, at times, may exceed federally insured limits. A substantial portion of the receivables is from the County of Santa Barbara.

Investments.
Investments are stated at fair value.

Property and Equipment. Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets and computed on the straight-line method.

Income Taxes. The Association is a nonprofit corporation and is not subject to federal or state income taxes. Management believes that the tax positions taken are more likely than not to be sustained upon examination. The Association's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Reclassification.
Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

Subsequent events. Subsequent events have been evaluated through August 10, 2018

Note 3: Grants and pledges receivable.

Pledges and grants receivable are expected to be realized in the following periods:

	2017	2016
One year or less	$ 78,862	$ 177,741
Between one and five years	164,921	125,210
Over five years	8,550	
Discount on pledges	(7,898)	(8,229)
	244,435	294,722
Less current portion	57,112	176,294
	$ 187,323	$ 118,428

Pledges receivable are reported at fair value, which is measured on a nonrecurring basis by estimating future cash flows and computing the present value using a discount rate of 2%.

Note 4: Property and equipment

Property and equipment are as follows:

	2017	2016
Land	$ 1,266,682	$ 841,576
Leasehold improvements	80,000	80,000
Building and improvements	4,793,861	3,992,877
Furniture and equipment	345,297	343,767
Vehicles	68,023	68,023
	6,553,863	5,326,243
Less: accumulated depreciation	(1,442,431)	(1,283,192)
Total property and equipment	$ 5,111,432	$ 4,043,051

Note 5: Investments

Investments consist of the following:

	2017	2016
Cash and cash equivalents	$ 461,361	$ 875,472
Equity securities		5,540
	$ 461,361	$ 881,012

Note 6: Affordable Housing Program (AHP) loan receivable

This receivable from MHA Garden Street Apartments, L.P., bears no interest and matures in October 2062. All payments are deferred until maturity.

Note 7: Developer fee receivable.

This receivable represents unreimbursed costs incurred and services rendered in connection with the development of the Garden Street project. The payment is expected to come from cash flow generated from rental income of the Partnership. For periods after November 18, 2010, this loan bears interest at 3.67%.

Note 8: Advances to MHA Garden Street Apartments, L.P.

These advances represent excess development costs and other construction costs incurred on behalf of the Partnership. The balance is payable from cash flow generated from rental income of the Partnership. Advances in amount of $578,711 bear interest at 8%.

Note 9: Investment in MHA Garden Street Apartments, L.P.

The investment in MHA Garden Street Apartments, L.P. reflects the cost of the land contributed to the Partnership, and is adjusted annually for the Association's share of the partnerships profits or losses, which is .009%. This resulted in a loss of $79 in 2017 and $77 in 2016. The loss is included in miscellaneous income.

Note 10: Affordable Housing Program (AHP) loan payable

This loan, which is payable to Union Bank, was made to fund the Garden Street project. The loan bears no interest and will be forgiven in December 2023 provided that the Association complies with the terms of the funding agreement.

Note 11: Subordinated elimination loan

The subordinated elimination loan is payable to the County of Santa Barbara. The loan bears no interest and has a 30-year term. The Association agrees to provide a certain number of beds for low income clients for the 30-year term of the note. In exchange for this, the loan will liquidate without payment in equal annual amounts of $8,333. In the event that the Association fails to provide the low-income beds during the 30 year period, the unliquidated portion of the note will become payable. The note is secured by real property but is subordinate to certain construction and/or permanent financing related to the Garden Street property development.

Note 12: Notes and leases payable

	2017	2016
Loan payable to Montecito Bank & Trust, payable in 60 monthly payments in the amount of $4,542 beginning June 5, 2017 with interest at 3.76%; 59 monthly payments beginning June 5, 2022, with interest at an index of the prime rate plus 2.5% and one payment on May 5, 2027 for the remaining balance. The note is secured by real property.	$ 962,249	$ -
Payable to the Housing Authority of the City of Santa Barbara as a "Capital Payment" under certain provisions of a lease agreement. The provisions call for $30,000 to be paid on the commencement of the lease and $10,000 to be paid annually for 5 years.	40,000	50,000
	1,002,249	50,000
Less: current portion	(28,647)	(10,000)
Long-term portion	$ 973,602	$ 40,000

Future payments at December 31, 2017 are as follows:

Year	Amount
2018	$ 28,647
2019	29,360
2020	30,101
2021	30,870
2022	21,668
Thereafter	861,603
	$ 1,002,249

Note 13: Unrestricted net assets

The unrestricted net assets include a board designated reserve in amount of $200,660.

Note 14: Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes or periods:

	2017	2016
For periods after December 31,	$ 244,435	$ 223,022
Program activities	25,000	112,500
	$ 269,435	$ 335,522

Note 15: Permanently restricted net assets

Permanently restricted net assets are restricted to:
Investments in perpetuity, the income from which is expendable to support:

Fellowship Club:	
To make annual Christmas gifts to members of the Fellowship Club	$ 20,000
To defray expenses	27,424
Education	11,533
Any activity of the organization	10,000
	$ 68,957

Note 16: Endowment

Interpretation of relevant law
The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of donor-restricted endowment gifts as of the gift date. The portion of the donor-restricted endowment fund that is not classified as permanently restricted is classified as temporarily restricted until those amounts are appropriated for expenditure by the Board for use in current operations.

Investment policy
The endowment assets are invested in a manner that is intended to produce results that preserve the gifts while assuming a low level of investment risk.

Spending policy
The Association has a policy of appropriating for distribution endowment earnings when received and available to distribute. Some earnings may be retained in order to maintain purchasing power of the endowment assets.

Note 17: Functional allocation of expenses

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

Note 18: Employee benefit plan

The Association has a 401(k) savings plan covering its eligible employees. Eligible employees may contribute through payroll deductions. The Association's matching contribution for the years of 2017 and 2016 was $28,829 and $27,917 respectively.

Note 19: Garden Street property development

The Garden Street property development is a facility consisting of 51 affordable residential units for mental health and other individuals and a three story office building. In 2006, the Association transferred land and certain development costs to Garden Street Apartments, L.P. ("Partnership"), which assumed responsibility for developing the property. In December 2009 the Association, through a controlled entity, purchased from the Partnership the first two floors of the building, and the City of Santa Barbara purchased the third floor.

Note 20: Related party transactions

Related party transactions with MHA Garden Street Apartments, L.P. ("Partnership") are shown on the face of the financial statements.

Note 21: Commitments

The Association entered into a lease agreement for housing facilities for a period expiring in October 2026. Future minimum lease payments are as follows:

Year ending December 31:	Amount
2018	$ 61,968
2019	61,968
2020	61,968
2021	61,968
2022	61,968
Thereafter	237,544
	$ 547,384

The Association is the guarantor of a MHA Garden Street Apartment, L.P. note payable to a bank. The note balance at December 31, 2017 was $2,825,246.

Note 22: Fair value measurements

The Association measures fair value of financial instruments in accordance with ASC 820, *Fair Value Measurements*. The standard establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 measurements were not utilized in 2017.
Level 2: Quoted prices in active or inactive markets for the same or similar assets. Level 2 measurements were not utilized in 2017 or 2016.
Level 3: Inputs that are unobservable, with valuations based on cash flow models and similar techniques, and not based on market activity.

Assets measured at fair value as of December 31, 2017 are as follows:

	Level 3	Total
Measured on a nonrecurring basis:		
Pledges receivable	$ 57,112	$ 57,112

Assets measured at fair value as of December 31, 2016 are as follows:

	Level 1	Level 3	Total
Measured on a recurring basis:			
Equity securities	$ 5,540	$ -	$ 5,540
Measured on a nonrecurring basis:			
Pledges receivable		97,783	97,783
	$ 5,540	$ 97,783	$ 103,323