MENTAL HEALTH ASSOCIATION

IN SANTA BARBARA COUNTY

FINANCIAL STATEMENTS

JUNE 30, 2021

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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 June 30, 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.

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.

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 June 30, 2021, 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 2020 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated March 16, 2021. In my opinion, the summarized comparative information presented herein as of and for the year June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gary A. Smith

Santa Barbara, California
March 21, 2022

MENTAL HEALTH ASSOCIATION IN SANTA BARBARA COUNTY
Statement of Financial Position
June 30, 2021
(With comparative totals for 2020)

ASSETS

	2021	2020
Current assets:		
Cash and cash equivalents	$ 459,738	$ 743,040
Accounts receivable	558,471	294,633
Grants and pledges receivable (Note 3)	35,000	17,317
Prepaid expenses and deposits	66,252	77,786
Total current assets	1,119,461	1,132,776
Grants and pledges receivable, net of current portion (Note 3)		43,245
Property and equipment, net (Note 4)	4,916,514	5,071,650
Investments (Note 5)	1,163,085	1,160,375
Other assets:		
Management fee receivable from Garden Street Apartments, L.P.	163,297	148,834
Affordable Housing Program (AHP) loan receivable (Note 6)	357,000	357,000
Developer fee receivable (Note 7)	342,627	500,949
Advances to MHA Garden Street Apartments, L.P. for construction and improvements (Note 8)	1,665,458	1,665,458
Accrued interest receivable	849,001	784,041
Investment in MHA Garden Street Apartments, L.P. (Note 9)	1,931,473	1,931,546
Prepaid costs, MHA Garden Street Apartments L.P. ownership transfer (Note 23)	51,418	
Total other assets	5,360,274	5,387,828
Total assets	$ 12,559,334	$ 12,795,874

See notes to financial statements.

MENTAL HEALTH ASSOCIATION IN SANTA BARBARA COUNTY
Statement of Financial Position
June 30, 2021
(With comparative totals for 2020)

LIABILITIES AND NET ASSETS

	2021	2020
Current liabilities:		
Accounts payable	$ 22,555	$ 35,674
Accrued salaries and vacation pay	136,824	145,107
Payable to County of Santa Barbara	27,495	27,495
Agency funds payable		53,964
SBA advance-Paycheck Protection Program (Note 10)		374,537
Current portion of elimination loan	8,333	8,333
Current portion of long-term debt (Note 13)	21,194	30,431
Total current liabilities	216,401	675,541
Other liabilities:		
Affordable Housing Program (AHP) loan payable (Note 11)	357,000	357,000
Elimination loan, net of current portion (Note 12)	82,640	90,973
Notes and leases payable, net of current portion (Note 13)	874,482	915,190
Security deposits	12,244	12,007
Total other liabilities	1,326,366	1,375,170
Total liabilities	1,542,767	2,050,711
Net assets:		
Without donor restrictions (Note 14)	10,792,610	10,610,644
With donor restrictions (Note 14)	223,957	134,519
Total net assets	11,016,567	10,745,163
Total liabilities and net assets	$ 12,559,334	$ 12,795,874

See notes to financial statements.

MENTAL HEALTH ASSOCIATION IN SANTA BARBARA COUNTY

Statement of Activities
Year ended June 30, 2021
(With comparative totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total 2021	Total 2020
Revenue, gains and other support:				
Contributions	$ 276,930	$	$ 276,930	$ 274,254
Grants	265,169	155,000	420,169	379,263
Grants-Paycheck Protection Program (Note 10)	374,537		374,537	
Resident fees	216,450		216,450	214,825
Board and care contracts	290,537		290,537	274,818
Fees received from Garden Street Apartments, L.P.	224,875		224,875	223,023
Property management fees received from Garden Street Owners' Association	24,000		24,000	20,790
Fees for services	84,888		84,888	43,693
Government contracts	2,043,955		2,043,955	2,168,037
Miscellaneous	11,832		11,832	6,197
Interest income from Garden Street Apartments, L.P.	122,164		122,164	112,308
Other interest and dividends	3,169		3,169	10,041
Loss or write-down of pledges		(24,495)	(24,495)	
Loss on equipment retired				(6,750)
Released from restrictions for program purposes	41,067	(41,067)	-	-
Total revenues, gains and other support	3,979,573	89,438	4,069,011	3,720,499
Expenses:				
Program services	2,966,185		2,966,185	2,961,177
Management and general	581,601		581,601	537,687
Fundraising	249,821		249,821	269,375
Total expenses	3,797,607	-	3,797,607	3,768,239
Change in net assets	181,966	89,438	271,404	(47,740)
Net assets, beginning of year	10,610,644	134,519	10,745,163	10,792,903
Net assets, end of year	$ 10,792,610	$ 223,957	$ 11,016,567	$ 10,745,163

See notes to financial statements.

MENTAL HEALTH ASSOCIATION IN SANTA BARBARA COUNTY

Statement of Functional Expenses

Year ended June 30, 2021

(With comparative totals for 2020)

	Program Services	Management and General	Fund Raising	2021 Total	2020 Total
Salaries and benefits	$ 2,053,973	$ 349,120	$ 184,545	$ 2,587,638	$ 2,416,986
Professional fees	66,468	54,703	8,666	129,837	203,597
Food	99,703	40	1,916	101,659	131,723
Supplies	62,372	10,610	2,751	75,733	77,056
Insurance	52,163	2,430	4,760	59,353	48,953
Other operating expenses	83,818	62,367	21,341	167,526	159,458
Occupancy	268,013	50,981	8,823	327,817	332,519
Repairs and maintenance	101,791	26,096		127,887	171,242
Depreciation	133,742	16,602	4,792	155,136	156,450
Interest	34,563			34,563	35,888
Advertising and marketing	9,579	8,652	12,227	30,458	34,367
Total expenses	$ 2,966,185	$ 581,601	$ 249,821	$ 3,797,607	$ 3,768,239

See notes to financial statements.

MENTAL HEALTH ASSOCIATION IN SANTA BARBARA COUNTY

Statement of Cash Flows
Year ended June 30, 2021
(With comparative totals for 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 271,404	$ (47,740)
Non cash expenses included in change in net assets:		
Depreciation and amortization	155,136	156,450
Amortization of elimination loan	(8,333)	(8,333)
Loss from investment in Garden Street Apartments, L.P.	73	75
Loss on equipment retired		6,750
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(238,276)	93,401
Developer fee receivable	158,322	
Accrued interest receivable	(64,960)	(112,308)
Management fee receivable	(14,463)	(13,841)
Prepaid expenses and deposits	11,534	(30,763)
Increase (decrease) in:		
Accounts payable	(13,119)	15,681
Accrued salaries and vacation pay	(8,283)	11,250
Security deposits	237	704
Cash provided by operating activities	249,272	71,326
Cash flows from investing activities:		
Purchase of property and equipment		(57,990)
Prepaid costs, MHA Garden Street Apartments L.P. ownership transfer	(51,418)	
Change in cash held for investments	(2,710)	(9,962)
Cash used by investing activities	(54,128)	(67,952)
Cash flows from financing activities:		
Agency funds received	(53,964)	53,964
SBA advance – Paycheck Protection Program	(374,537)	374,537
Payments on long-term debt	(49,945)	(29,113)
Cash provided (used) by financing activities	(478,446)	399,388
Net increase in cash	(283,302)	402,762
Cash and cash equivalents, beginning of year	743,040	340,278
Cash and cash equivalents, end of year	$ 459,738	$ 743,040
Supplemental disclosures:		
Cash paid for interest	$ 34,563	$ 35,888
Cash paid for taxes	$ 3,910	$ 1,600

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.

Basis of presentation
The financial statements of the Association have been prepared in accordance with U.S. generally accepted principles (GAAP). GAAP requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets and changes in net assets are categorized as follows:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. This net asset classification includes amounts designated by the Board for special purposes.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Donor-imposed restrictions may be temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue recognition
Contributions – Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Rental Income – Rental income is recognized when due from residents, with payments made on a monthly basis. Rental agreements are generally month to month.

Board and Care Contracts – Revenue recognition is similar to rental income above, but the rental amount includes food and the residents live in state licensed adult care facilities.

Management Fees – Management fees are for tenant liaison and general management of the Partnership's affordable housing complex. The services are provided on a continuous basis with payments being made monthly. The fee amount is negotiated annually.

Program Services – Program service fees and other revenue including ancillary services are recognized when the revenue is earned, generally when service is provided.

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.

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.

Advertising
Advertising costs are expensed when incurred and are included in functional expenses.

Functional expenses
The costs of providing the Association's various programs and supporting services have been summarized on a functional basis in the statement of activities. Certain costs, based upon estimates by management, have been allocate among the programs and supporting services benefited. The estimates by management take into consideration personnel and space utilization.

Recent accounting pronouncement
In July 2020, the Association adopted Financial Accounting Standards Board (FASB) ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The Association utilized the modified prospective method, in which the cumulative effect of

standard (if any) is recognized at the date of initial application. There was no cumulative effect adjustment, but the disclosures regarding revenue recognition are more robust.

Reclassifications

Certain reclassifications have been made to the 2020 financial statements to confirm to the 2021 presentation.

Note 3: Grants and pledges receivable.

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

	2021	2020
One year or less	$ 35,000	$ 17,317
Between one and five years		43,245
	$ 35,000	$ 60,562

Note 4: Property and equipment

Property and equipment are as follows:

	2021	2020
Land	$ 1,266,682	$ 1,266,682
Leasehold improvements	80,000	80,000
Building and improvements	5,135,256	5,135,256
Furniture and equipment	360,360	360,360
Vehicles	68,023	68,023
	6,910,321	6,910,321
Less: accumulated depreciation	(1,993,807)	(1,838,671)
Total property and equipment	$ 4,916,514	$ 5,071,650

Note 5: Investments

Investments consist of cash and cash equivalents.

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 recorded loss of $73 in 2021. The loss is included in miscellaneous income.

Note 10: SBA Advance – Paycheck Protection Program

In April 2020 the Association received an advance under the Paycheck Protection Program ("PPP") in the amount of $374,537. The PPP was established as part of the CARES Act, which provides for loans and advances to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The advance and any accrued interest are forgiven as long as the business spends the advance for eligible purposes, which include payroll, benefits, rent, and utilities. The loan was forgiven in the fiscal year ended June 30, 2021.

Note 11: 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 12: 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 13: Notes and leases payable

	2021	2020
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.	$ 895,676	$ 915,621
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.		30,000
	895,676	945,621
Less: current portion	(21,194)	(30,431)
Long-term portion	$ 874,482	$ 915,190

Future payments at June 30, 2021 are as follows:

Year		
2022	$	21,194
2023		22,004
2024		22,846
2025		23,720
2026		24,627
Thereafter		781,285
	$	895,676

Note 14: Net assets

Net assets consist of the following:

	2021	2020
Without donor restrictions		
Undesignated	$ 9,698,371	$ 9,529,069
Board designated reserve for operations and building repairs	1,094,239	1,081,575
	10,792,610	10,610,644
With donor restrictions		
Purpose restrictions:		
For programs	155,000	5,000
Held in perpetuity	68,957	68,957
Subject to passage of time		60,562
	223,957	134,519
Total net assets	$ 11,016,567	$ 10,745,163

The income from investments held in perpetuity 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 15: Endowment

Interpretation of relevant law
The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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.

Endowment net assets were $68,957 at June 30, 2021. Allocated interest earned of approximately $200 in 2021 was appropriated in that year.

Note 16: 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 in 2021 was $36,720.

Note 17: 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 18: Related party transactions

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

Note 19: 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 June 30:	
2022	$ 61,968
2023	61,968
2024	61,968
2025	61,968
2026	61,968
Thereafter	20,656
	$ 330,496

The Association is the guarantor of a MHA Garden Street Apartment, L.P. note payable to a bank. The note balance at December 31, 2020 was $2,503,320.

Note 20: 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 2: Quoted prices in active or inactive markets for the same or similar assets.
Level 3: Inputs that are unobservable, with valuations based on cash flow models and similar techniques, and not based on market activity.

There were no assets measured at fair value as of June 30, 2021. Assets previously measured at fair value, when applicable, include investments and pledges receivable.

Note 21: Financial assets and liquid resources

Financial assets and liquid resources that are available within one year of June 30, 2020 to fund general expenditures and other obligations as they become due are as follows:

Financial assets:	
Cash and cash equivalents	$ 759,738
Accounts receivable	558,471
Grants and pledges receivable due within one year	35,000
Board designations:	
Operating reserve	1,094,239
Total financial assets available within one year	$ 2,447,448

The Association may experience budgetary short-falls due to the unpredictability and timing of the receipt of grants and donations, and deferred payments on government contracts. To manage liquidity the Association maintains an operating reserve in the amount of $1,094,239.

Note 22: Uncertainties

The United States and the world are experiencing a health pandemic known as COVID-19. Treatments to protect against serious illness have been developed and vaccinations are taking place. Business and governmental entities are operational but some at a reduced capacity. Recently there has been an increase in cases attributable a new variant of the virus and there is a major effort by governments and health care officials to get more people vaccinated. Because of the uncertainty involved, it is not possible to predict the impact of the virus on the Association's future financial position.

Note 23: Subsequent events

Subsequent events have been evaluated through March 21, 2022 noting the following:

As mentioned in Note 1 to the financial statements, Building Hope, LLC (Building Hope) is a limited liability company 100% owned by the Mental Health Association in Santa Barbara County (MHASB). Building Hope is the general partner and has a .009%, interest in MHA Garden Street Apartments, L.P. (Partnership). In January 2022, Building Hope acquired the 99.991% interest of the limited partners, the consideration being the assumption of debt on the Partnership's books. The debt assumed or refinanced is as follows:

Refinanced loan with bank	$ 2,750,000
Note payable, City of Santa Barbara	6,300,000
Note payable, CalHFA	1,000,000
	$ 10,050,000

The two governmental loans mature in 2064 and 2039 respectively.

In addition, Building Hope will assume approximately $3,000,000 of loans payable by the Partnership to MHASB.

For additional information about the Partnership and the loans discussed above, see the Partnership's most recent audited financial statements.