
MOMENTUM FOR MENTAL HEALTH

(a California non-profit organization)

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Nichols, Rick & Company

CERTIFIED PUBLIC ACCOUNTANTS

**MOMENTUM FOR MENTAL HEALTH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Momentum for Mental Health
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of Momentum for Mental Health (a California non-profit organization), which comprise the statements of financial position as of June 30, 2016 and June 30, 2015, the related statements of cash flows for the years then ended, the related statements of activities and functional expenses for the year ended June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Momentum for Mental Health as of June 30, 2016 and June 30, 2015, the changes in its cash flows for the years then ended, and the changes in its net assets for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Other Matters-Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal, state, and local awards for the year ended June 30, 2016, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2016 on our consideration of Momentum for Mental Health's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Momentum for Mental Health's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Momentum for Mental Health's June 30, 2015 financial statements, and our report dated September 22, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Morgan Hill, CA
September 22, 2016

MOMENTUM FOR MENTAL HEALTH
Statements of Financial Position
As of June 30, 2016 and June 30, 2015

	2016	2015
<u>ASSETS</u>		
Assets:		
Cash	\$ 6,341,264	\$ 8,895,689
Accounts receivable, net	2,469,824	1,801,238
Grants receivable	3,417,075	853,718
Pledges receivable	2,879	-
Prepaid expenses	253,737	169,358
Total current assets	12,484,779	11,720,003
Fixed assets, net	10,669,566	10,966,709
Deposits	580,339	583,189
Deposits relating to bonds	1,507,105	1,495,352
Intangible assets, net	412,003	480,671
TOTAL ASSETS	<u>\$ 25,653,792</u>	<u>\$ 25,245,924</u>
<u>LIABILITIES & NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 360,695	\$ 396,918
Accrued salaries & vacation	2,421,329	2,240,377
Deposits held	67,927	68,258
Accrued interest, current portion	106,771	112,600
Bonds payable, current portion	560,000	535,000
Notes payable, current portion	-	-
Total current liabilities	3,516,722	3,353,153
Accrued interest, net	808,916	747,562
Bonds payable, net	3,927,400	4,487,400
Notes payable, net	1,611,107	1,611,107
Total long term liabilities	6,347,423	6,846,069
Total liabilities	9,864,145	10,199,222
Net assets:		
Unrestricted	15,132,576	14,551,972
Temporarily restricted	657,071	494,730
Permanently restricted	-	-
Total net assets	15,789,647	15,046,702
TOTAL LIABILITIES & NET ASSETS	<u>\$ 25,653,792</u>	<u>\$ 25,245,924</u>

MOMENTUM FOR MENTAL HEALTH
Statement of Activities
For the Year Ended June 30, 2016
With summarized financial information for the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2016 Totals	Comparative summary totals for the year ended June 30, 2015
SUPPORT & REVENUE					
Support received directly					
Contributions	\$ 32,049	\$ 219,915	\$ -	\$ 251,964	\$ 216,976
Contributions in-kind	8,233			8,233	61,828
Special events, net of \$120,941 expense	94,610			94,610	-
Support received indirectly					
United Way	2,288			2,288	2,326
Total Support	137,180	219,915	-	357,095	281,130
Revenue					
Government grants & fees	27,450,997			27,450,997	25,993,832
Interest & dividend income	4,063			4,063	1,599
Fees for services	7,452,868			7,452,868	7,318,915
Miscellaneous income	44,472			44,472	44,484
Total Revenue	34,952,400	-	-	34,952,400	33,358,830
Net assets released from restrictions	57,574	(57,574)	-	-	-
TOTAL SUPPORT & REVENUE	35,147,154	162,341	-	35,309,495	33,639,960
EXPENSES					
Program Services					
Crisis & Transitional Residential	8,602,233			8,602,233	8,422,946
Outpatient Services	18,430,167			18,430,167	18,176,632
Day Treatment Services	764,709			764,709	713,660
Total Program Services	27,797,109	-	-	27,797,109	27,313,238
Support Services					
Management & General	6,416,054			6,416,054	5,558,491
Development	353,387			353,387	449,902
Total Support Services	6,769,441	-	-	6,769,441	6,008,393
TOTAL EXPENSES	34,566,550	-	-	34,566,550	33,321,631
Change in net assets from operations	580,604	162,341	-	742,945	318,329
Net assets at beginning of year	14,551,972	494,730	-	15,046,702	14,728,373
Net assets at end of year	<u>\$ 15,132,576</u>	<u>\$ 657,071</u>	<u>\$ -</u>	<u>\$ 15,789,647</u>	<u>\$ 15,046,702</u>

MOMENTUM FOR MENTAL HEALTH
Statement of Functional Expenses
For the Year Ended June 30, 2016
With summarized financial information for the year ended June 30, 2015

	PROGRAM SERVICES				
	Crisis & Transitional Services	Outpatient Services	Day Treatment Services	June 30, 2016 Total Program Services	Comparative summary totals for the year ended June 30, 2015
Salaries	\$ 4,869,818	\$ 13,144,297	\$ 559,214	\$ 18,573,329	\$ 18,069,804
Employee benefits	819,464	1,760,290	59,779	2,639,533	2,610,177
Payroll taxes	558,088	1,330,151	58,648	1,946,887	1,890,173
Total salaries & related expenses	6,247,370	16,234,738	677,641	23,159,749	22,570,154
Professional fees	23,219	221,926	7,659	252,804	292,628
Supplies	676,998	169,867	12,837	859,702	881,248
Telephone	50,060	130,820	7,338	188,218	167,331
Postage & shipping	251	4,956	5	5,212	4,647
Occupancy	695,923	601,106	31,596	1,328,625	1,273,413
Equipment rent & maintenance	33,128	57,269	3,709	94,106	108,531
Printing, subscriptions, & publications	10	848	20	878	3,612
Travel & transportation	63,933	197,785	1,854	263,572	258,376
Conference, conventions, & meetings	6,942	17,427	55	24,424	11,608
Specific assistance	45,544	443,614	709	489,867	439,490
Memberships, dues, & licenses	1,350	2,500	-	3,850	9,600
Interest expense	123,121	94,645	4,615	222,381	250,994
Advertising & recruitment	2,967	8,760	87	11,814	17,307
Insurance	132,105	170,639	13,807	316,551	318,831
Bad debts	264,060	36,000	-	300,060	300,060
Miscellaneous	23,439	7,026	74	30,539	106,886
Total expenses before depreciation	8,390,420	18,399,926	762,006	27,552,352	27,014,716
Depreciation	211,813	30,241	2,703	244,757	298,522
TOTAL EXPENSES	\$ 8,602,233	\$ 18,430,167	\$ 764,709	\$ 27,797,109	\$ 27,313,238

MOMENTUM FOR MENTAL HEALTH
Statement of Functional Expenses
For the Year Ended June 30, 2016
With summarized financial information for the year ended June 30, 2015

	TOTAL PROGRAM SERVICES	SUPPORT SERVICES			JUNE 30, 2016 PROGRAM & SUPPORT SERVICES TOTALS	Comparative Summary Totals for the Year ended June 30, 2015
		Management & General	Development	Totals		
Salaries	\$ 18,573,329	\$ 3,829,444	\$ 232,881	\$ 4,062,325	\$ 22,635,654	\$ 21,632,257
Employee benefits	2,639,533	594,903	46,337	641,240	3,280,773	3,196,387
Payroll taxes	1,946,887	370,515	23,924	394,439	2,341,326	2,202,354
Total salaries & related expenses	23,159,749	4,794,862	303,142	5,098,004	28,257,753	27,030,998
Professional fees	252,804	661,203	14,094	675,297	928,101	749,096
Supplies	859,702	90,396	4,937	95,333	955,035	957,137
Telephone	188,218	49,289	6,295	55,584	243,802	218,138
Postage & shipping	5,212	4,004	868	4,872	10,084	10,402
Occupancy	1,328,625	112,746	9,915	122,661	1,451,286	1,417,517
Equipment rent & maintenance	94,106	16,886	3,405	20,291	114,397	128,520
Printing, subscriptions, & publications	878	20,777	1,311	22,088	22,966	26,563
Travel & transportation	263,572	53,794	719	54,513	318,085	320,721
Conference, conventions, & meetings	24,424	43,330	1,229	44,559	68,983	44,434
Specific assistance	489,867	-	2,319	2,319	492,186	439,720
Memberships, dues, & licenses	3,850	51,267	300	51,567	55,417	49,399
Interest expense	222,381	49,733	1,864	51,597	273,978	289,777
Amortization of bond costs	-	68,667	-	68,667	68,667	68,667
Advertising & recruitment	11,814	31,582	312	31,894	43,708	35,583
Insurance	316,551	63,681	867	64,548	381,099	381,099
Bad debts	300,060	-	-	-	300,060	300,060
Miscellaneous	30,539	22,714	-	22,714	53,253	168,100
Total expenses before depreciation	27,552,352	6,134,931	351,577	6,486,508	34,038,860	32,635,931
Depreciation	244,757	281,123	1,810	282,933	527,690	685,700
TOTAL EXPENSES	\$ 27,797,109	\$ 6,416,054	\$ 353,387	\$ 6,769,441	\$ 34,566,550	\$ 33,321,631

MOMENTUM FOR MENTAL HEALTH
Statements of Cash Flows
For the Years Ended June 30, 2016 and June 30, 2015

	2016	2015
Cash flows from operating activities:		
Increase in net assets from operations	\$ 742,945	\$ 318,329
Adjustments to reconcile increase in net assets from operations to net cash provided (used) by operating activities:		
Depreciation	527,690	685,700
Bond amortization	68,667	68,667
Changes in assets & liabilities:		
Decrease (increase) in accounts receivable	(668,586)	(122,404)
Decrease (increase) in grants receivable	(2,563,357)	2,860,521
Decrease (increase) in pledges receivable	(2,879)	28
Decrease (increase) in prepaid expenses	(84,379)	(70,659)
Decrease (increase) in deposits	2,850	(44,873)
(Decrease) increase in payables and accrued liabilities	200,254	217,510
(Decrease) increase in client deposits	(331)	(24,084)
Net cash provided (used) by operating activities	(1,777,126)	3,888,735
Cash flows from investing activities:		
Acquisition of building, land, & equipment	(230,546)	(371,208)
Net cash (used) provided by investing activities	(230,546)	(371,208)
Cash flows from financing activities:		
(Increase) decrease in deposits relating to bonds	(11,753)	(12,952)
Repayment of notes payable		
Repayment of bond principal	(535,000)	(510,000)
Net cash used by financing activities	(546,753)	(522,952)
Net increase (decrease) in cash	(2,554,425)	2,994,575
Cash, beginning of year	8,895,689	5,901,114
Cash, end of year	\$ 6,341,264	\$ 8,895,689

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:		
Interest	\$ 218,453	\$ 263,491
Income taxes	\$ 0	\$ 0
Noncash transactions:		
Assets acquired via loan	\$ 0	\$ 0
Cost basis of assets disposed of	\$ 0	\$ 0

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. NATURE OF ORGANIZATION:

Momentum for Mental Health (the "Agency"), a nonprofit California corporation formed in 1997, exists 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 illness 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 teams of mental health care professionals and paraprofessionals and include case management, medication, mental health 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 Mental 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation: The Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Agency is required to present a statement of cash flows. These financial statements do not include the operations or financial position of the Foundation for Mental Health, a California non-profit organization under common control, but with variance power as to the entities and activities it may support. These financial statements also do not include the operations or financial position of Home Base Homes, Inc., a California non-profit organization under common control subject to its own unique Department of Housing and Urban Development financial reporting requirements. As of June 30, 2016 the Agency had advanced \$1,814 to Home Base Homes, Inc. and charged \$21,767 for services and expenses during the year then ended. Key financial data for Home Base Homes, Inc. as of June 30, 2015, its most recent financial reporting, is:

<u>Balance Sheet:</u>	
Assets	<u>\$ 822,100</u>
Liabilities	\$ 1,019,500
Accumulated Deficit	<u>(197,400)</u>
	<u>\$ 822,100</u>
<u>Income Statement:</u>	
Income	\$ 272,800
Expenses	<u>262,100</u>
Change in Net Assets	<u>\$ 10,700</u>

Contributions: Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. In addition, pledges and unconditional promises to give are required to be reported as temporarily restricted support upon date of notification and are then released from restrictions upon satisfaction of the time or use requirement. If a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Cash and Cash Equivalents: For purposes of the statements of cash flows, the Agency considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of these instruments. Included in cash as of June 30, 2016 and June 30, 2015 is \$70,813 and \$61,776, respectively, restricted for property repairs and improvements by the lenders.

Accounts Receivable: Accounts receivable are shown net of allowances for doubtful program service fees.

Income Taxes: The Agency is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3), from California income taxes under Section 23701(d) of the California Bank and Corporation Tax Law, and has been determined to be an organization that is not a private foundation. Management has determined the implementation of ASC 740-10-65 did not have a material impact on its financial statements. Tax years for the years ended June 30, 2012 through June 30, 2016 remain open for examination by taxing authorities.

Comparative 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Depreciation: Fixed assets are reported at cost or donated value, and are depreciated using the straight-line method over the estimated useful life of the asset, ranging from three to forty years. The Agency's policy is to capitalize items greater than or equal to \$1,000. Additions to fixed assets for the years ended June 30, 2016 and June 30, 2015 totaled \$230,546 and \$371,209, respectively. At June 30, 2016 and June 30, 2015, the cost and related accumulated depreciation for fixed asset components is as follows:

	2016	2015
Land and improvements	\$ 4,237,078	\$ 4,237,078
Buildings and improvements	15,110,177	14,884,861
Furniture, equipment, and improvements	1,067,918	1,062,688
Vehicles	206,983	206,983
	<u>20,622,156</u>	<u>20,391,610</u>
less: accumulated depreciation	9,952,590	9,424,901
Total	<u>\$ 10,669,566</u>	<u>\$ 10,966,709</u>

Depreciation expense charged to operations for the years ended June 30, 2016 and June 30, 2015 totaled \$527,690 and \$685,700, respectively.

Expenses: The Agency has in place a cost allocation plan employed to allocate indirect expenses to each program on a basis proportionate to the direct staff time or other cost driver used for each program.

Accrued Compensation: 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.

Donations: All donations are considered to be available for unrestricted use unless specifically restricted by the donor. Donated professional services and fixed assets are reflected as contributions in the accompanying statements at their estimated fair market value, net of assumed liabilities, at date of notification. For the years ended June 30, 2016 and June 30, 2015, donated materials, supplies, and services, including donations made for special events, totaled \$42,523 and \$61,828, respectively.

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Legacies and Bequests:

Legacies and bequests are received by the Agency under various wills and trust agreements. The amounts are recorded upon legal validation.

Revenue Recognition, Grants Receivable, and Grants Payable: 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 a grant receivable or grant payable for contracts for which cost reports have not been finalized. The carrying amounts for grants 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.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising: The Agency's policy is to expense advertising costs to operations as incurred. For the years ending June 30, 2016 and 2015, \$29,273 and \$17,909, respectively, were expensed.

3. INVESTMENTS:

Investments are carried at fair market value, as based on quoted market prices for these or similar instruments. In accordance with ASC 820-10, Level 1 inputs have been used, when applicable, to value publicly held common stock investments. Donated investments are recorded at the estimated fair market value at the donation date.

4. ACCOUNTS, GRANTS, and PLEDGES RECEIVABLE:

The carrying amounts for accounts, grants, and pledges receivable reported in the statements of financial position approximate fair values as all amounts are expected to be received within one year. The following amounts are reported as receivables as of June 30, 2016 and June 30, 2015:

	<u>2016</u>	<u>2015</u>
Accounts receivable:		
Program service fees	\$ 2,795,632	\$ 2,144,275
Less: allowance for doubtful accounts	<u>325,808</u>	<u>343,037</u>
Accounts receivable, net	<u>\$ 2,469,824</u>	<u>\$ 1,801,238</u>
Grants receivable:		
Santa Clara County, net of cost report reserves	\$ 3,262,110	\$ 570,600
Department of Rehabilitation	146,714	275,077
Other	<u>8,251</u>	<u>8,041</u>
Grants receivable, total	<u>\$ 3,417,075</u>	<u>\$ 853,718</u>
Pledges receivable:		
United Way designations and private parties	<u>\$ 2,879</u>	<u>\$ -</u>

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

5. BONDS PAYABLE:

On November 17, 2003, the Agency defeased the remaining \$6,305,000 of the *1992 Insured Revenue Certificates of Participation (Rehabilitation Mental Health Services, Inc. Project)* bonds and the remaining \$2,230,000 of the *1992 Insured Revenue Certificates of Participation (Miramonte Mental Health Services, Inc. Project)* bonds and issued new bonds, Series 2003, dated October 1, 2003. As of June 30, 2016, the California Health Facilities Financing Authority Insured Refunding Revenue Bonds (Momentum for Mental Health), Series 2003, consist of:

Description	Interest Rates	Due Dates	Current Amount	Total Due
Serial bonds	1.55 % to 5.25 %	July 1, 2016 to July 1, 2022	\$ 560,000	\$4,487,400

Terms of the bonds require the Agency to maintain certain financial measurements and conditions. As of June 30, 2016 and June 30, 2015, the Agency was in compliance with these requirements. Certain fixed assets of the Agency as well as a pledge and assignment of Agency revenues secure the bonds. These bonds have semi-annual interest payments, and are subject to certain future redemption provisions at the Agency's option. Bond interest expense incurred during the years ended June 30, 2016 and June 30, 2015 totaled \$209,504 and \$245,813, respectively. The future annual maturities for the bonds outlined above are as follows:

Year Ending June 30,	Amount
2017	\$ 560,000
2018	585,000
2019	610,000
2020	635,000
2021	665,000
Thereafter	1,432,400
Total	<u>\$ 4,487,400</u>

Intangible assets include deferred bond issue costs, relating to the 2003 bond placements, of \$1,273,109, less accumulated amortization of \$861,106. Amortization for the years ended June 30, 2016 and June 30, 2015 totaled \$68,667 and \$68,667, respectively. The deposits relating to bonds presented in the statements of financial position consist of funds held in trust by a third party for the purpose of maintaining required reserves and bond compliance.

6. NOTES PAYABLE:

As of June 30, 2016, notes payable consist of:

Description	Interest Rate	Due Dates	Current Amount	Total Due
California Department of Housing and Community Development, secured by real property, annual interest of \$5,859 deferred	3.00 %	June 14, 2041	\$ 0	\$ 195,285
U.S. Department of Housing and Urban Development, secured by real property, annual interest of \$3,570 deferred	3.00 %	June 14, 2021		119,005
State of California, secured by real property, annual interest of \$19,533 deferred	3.00 %	June 3, 2028		651,106

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

6. NOTES PAYABLE: (continued)

Description	Interest Rate	Due Dates	Current Amount	Total Due
State of California, secured by real property, annual interest of \$3,120 deferred	3.00 %	Oct. 29, 2032		104,000
U.S. Department of Housing and Urban Development, passed through City of Sunnyvale, secured by real property, annual interest of \$12,841 deferred	3.00 %	Dec. 2, 2040 and Nov. 28, 2041		431,714
Housing Trust of Santa Clara County, secured by real property	0.00 %	Aug. 8, 2043	-	109,997
Totals			<u>\$ -</u>	<u>\$ 1,611,107</u>

Interest expense incurred from these borrowings during the years ended June 30, 2016 and June 30, 2015 totaled \$64,474 and \$44,593, respectively.

The future annual maturities for the notes payable outlined above are as follows:

Year Ending June 30,	Amount
2017	\$ -
2018	-
2019	-
2020	-
2021	119,005
Thereafter	1,492,102
Total	<u>\$ 1,611,107</u>

The Agency also has in place a \$1,000,000 line of credit which is secured by accounts receivable and personal property. The line bears interest at prime plus .75%, subject to a 4% minimum rate, and expires June 2017.

7. REAL PROPERTY CONTINGENT LIABILITIES:

The Agency has received a Community Development Block Grant (CDBG) from the City of San Jose, totaling \$468,650. This amount is secured by a Trust Deed and will be forgiven no later than December 2016 as long as the subject property continues to be used in accordance with the grant provisions. Since the Agency intends to comply with the grant restrictions, the above amount has been recorded as a grant and not as a mortgage loan requiring mandatory payback. However, disposition of the property prior to fulfillment of the use restrictions generates a mandatory payment of principal.

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. LEASE COMMITMENTS:

The Agency is obligated under two long-term facility leases, expiring through October 2019, and various month-to-month facility leases for program facilities. The total expense incurred under these leases for the years ended June 30, 2016 and June 30, 2015 was \$481,497 and \$445,824, respectively. The future minimum lease commitment for these facility leases is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 163,388
2018	168,290
2019	173,339
2020	57,779

The Agency is also obligated under three noncancellable leases for office equipment, scheduled to expire at various dates through April 2019. The total expense incurred under these leases for the years ended June 30, 2016 and June 30, 2015 was \$31,371 and \$35,606, respectively. The future minimum lease commitment for these equipment leases is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 10,200
2018	10,200
2019	6,800

9. 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, determined by continuous years of service. The Agency contributed \$727,190 and \$660,071 during the years ended June 30, 2016 and June 30, 2015, respectively. These matches have a five-year graduated vesting provision.

10. CONCENTRATIONS AND CONTINGENCIES:

At times during the fiscal years ended June 30, 2016 and June 30, 2015, the Agency maintained cash balances in excess of insured levels at various financial institutions. In addition, approximately 73% 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 2016.

The Agency, during the normal course of operating its business, may be subject to various lawsuits, licensing reviews, and government audits. Management believes that losses resulting from these matters, if any, would either be covered under the Agency's insurance policy or is immeasurable. Management further believes the losses, if any, would not have a material effect on the financial position of the Agency.

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

11. RESTRICTED NET ASSETS:

As of June 30, 2016 and 2015, the Agency's temporarily restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Time restrictions	\$ 0	\$ 0
Use restrictions		
HUD liens	468,650	468,650
Program specific use restrictions	<u>188,421</u>	<u>26,080</u>
Total temporarily restricted net assets	<u>\$ 657,071</u>	<u>\$ 494,730</u>

12. NET ASSETS RELEASED FROM RESTRICTIONS:

Temporarily restricted net assets were decreased as a result of the following restriction releases and transfers during the years ended June 30, 2016 and June 30, 2015:

	<u>2016</u>	<u>2015</u>
Time restrictions	\$ 0	\$ 0
Use restrictions		
HUD liens satisfied		
Program specific use restrictions satisfied	<u>57,574</u>	<u>129,616</u>
Total temporary restrictions released	<u>\$ 57,574</u>	<u>\$ 129,616</u>

13. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through September 22, 2016, the date on which the financial statements were available to be issued.

MOMENTUM FOR MENTAL HEALTH
Schedule of Expenditures of Federal, State, and Local Awards
For the Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Program or Award Amount	Receipts/ Revenue Recognized	Disbursements/ Expenditures Incurred
<u>Non-major programs</u>				
Department of Education, passed through State of California Department of Rehabilitation Vocational Rehabilitation, Contract 28824	84.126A	\$ 450,000	\$ 450,000	\$ 450,000
<u>Totals -non-major programs</u>		450,000	450,000	450,000
Total federal financial assistance		450,000	450,000	450,000
<u>State & local government assistance</u>				
City of Palo Alto, Outreach Services, Contract C-16159611		33,003	33,003	33,003
County of Santa Clara, Mental Health Services:				
MH Adult, PO 43000111422/4300012364 (includes PATH)		14,229,256	13,740,172	13,740,172
MH Family & Children, PO 430001425/4300012365		880,744	699,737	699,737
MHSA FSP Adult, PO 4300011547/4300012307		3,400,094	2,809,194	2,809,194
MHSA FSP TAY, PO 4300011540/4300012312		659,612	659,612	659,612
MHSA CSS OPD Redesign, PO 4300011543/4300012305		3,811,730	3,260,032	3,260,032
MHSA Adult, PO 4300011554/4300012315		49,574	47,517	47,517
MHSA CSS TAY Redesign, PO 4300011545/4300012306		143,676	117,904	117,904
MHSA FSP Crisis Residential, PO 4300011538/4300012303		2,316,035	2,197,932	2,197,932
MHSA PEI REACH, PO 4300011552/4300012314		795,680	738,546	738,546
MHSA PEI Adult, PO 4300011549/4300012313		263,432	74,227	74,227
MHSA CSS, Bridge Team, PO 4300011542/4300012304		1,548,752	1,410,493	1,410,493
MHSA FSP AB-109, PO 4300011537/4300012302		964,689	963,521	963,521
MHSA MORS Training, PO 4300006924/440006798		16,000	8,000	8,000
MHSA CSS Student/Intern, PO 4300012181/4300012317		45,245	45,244	45,244
State of California, passed through Noridian, Medicare offsets		195,863	195,863	195,863
Total state & local government assistance		29,353,385	27,000,997	27,000,997
GRAND TOTALS		\$ 29,803,385	\$ 27,450,997	\$ 27,450,997

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Momentum for Mental Health
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Momentum for Mental Health (a California non-profit organization), which comprise the statement of financial position as of June 30, 2016, the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Momentum for Mental Health's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Momentum for Mental Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Momentum for Mental Health's internal control. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described earlier in this paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Momentum for Mental Health's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nichols, Rick & Co.

Morgan Hill, CA
September 22, 2016