MOMENTUM FOR MENTAL HEALTH

(a California non-profit organization)

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

Nichols, Rick & Company

CERTIFIED PUBLIC ACCOUNTANTS

MOMENTUM FOR MENTAL HEALTH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

Nichols, Rick & Company CERTIFIED PUBLIC ACCOUNTANTS

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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, 2014 and June 30, 2013, 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, 2014, 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, 2014 and June 30, 2013, the changes in its cash flows for the years then ended, and the changes in its net assets for the year ended June 30, 2014 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, 2014, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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 19, 2014 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, 2013 financial statements, and our report dated September 20, 2013, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nichols, Rick + Co.

Morgan Hill, CA
September 19, 2014

MOMENTUM FOR MENTAL HEALTH
Statements of Financial Position
As of June 30, 2014 and June 30, 2013

	2014	2013
ASSETS		
Assets:		
Cash	$ 5,901,114	$ 4,013,908
Accounts receivable, net	1,678,834	1,230,570
Grants receivable	3,714,239	4,659,570
Pledges receivable	28	3,288
Prepaid expenses	98,699	219,790
Total current assets	11,392,914	10,127,126
Fixed assets, net	11,281,201	11,678,321
Deposits	538,316	427,571
Deposits relating to bonds	1,482,400	1,466,738
Intangible assets, net	549,338	618,005
TOTAL ASSETS	$ 25,244,169	$ 24,317,761
LIABILITIES & NET ASSETS		
Liabilities:		
Accounts payable	$ 397,583	$ 453,752
Accrued salaries & vacation	2,048,488	1,753,062
Deposits held	92,342	47,243
Accrued interest, current portion	130,908	140,365
Bonds payable, current portion	510,000	485,000
Notes payable, current portion	-	79,892
Total current liabilities	3,179,321	2,959,314
Accrued interest, net	702,968	662,634
Bonds payable, net	5,022,400	5,532,400
Notes payable, net	1,611,107	1,615,634
Total long term liabilities	7,336,475	7,810,668
Total liabilities	10,515,796	10,769,982
Net assets:		
Unrestricted	14,259,723	13,079,129
Temporarily restricted	468,650	468,650
Permanently restricted	-	-
Total net assets	14,728,373	13,547,779
TOTAL LIABILITIES & NET ASSETS	$ 25,244,169	$ 24,317,761

MOMENTUM FOR MENTAL HEALTH
Statement of Activities
For the Year Ended June 30, 2014
With summarized financial information for the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2014 Totals	Comparative summary totals for the year ended June 30, 2013
SUPPORT & REVENUE					
Support received directly					
Contributions	$ 223,351	$ -	$ -	$ 223,351	$ 123,890
Contributions in-kind	28,300			28,300	12,411
Special events, net	-			-	3,409
Support received indirectly					
United Way	1,980			1,980	1,778
Total Support	253,631	-	-	253,631	141,488
Revenue					
Government grants & fees	24,854,927			24,854,927	22,716,262
Interest & dividend income	3,346			3,346	4,947
Fees for services	6,195,725			6,195,725	5,855,444
Miscellaneous income	9,923			9,923	2,723
Total Revenue	31,063,921	-	-	31,063,921	28,579,376
Net assets released from restrictions	-	-	-	-	-
TOTAL SUPPORT & REVENUE	31,317,552	-	-	31,317,552	28,720,864
EXPENSES					
Program Services					
Crisis & Transitional Residential	8,882,845			8,882,845	9,167,313
Outpatient Services	14,200,051			14,200,051	12,478,003
Day Treatment Services	1,668,786			1,668,786	1,528,306
Total Program Services	24,751,682	-	-	24,751,682	23,173,622
Support Services					
Management & General	4,962,538			4,962,538	4,519,484
Development	422,738			422,738	418,418
Total Support Services	5,385,276	-	-	5,385,276	4,937,902
TOTAL EXPENSES	30,136,958	-	-	30,136,958	28,111,524
Change in net assets from operations	1,180,594	-	-	1,180,594	609,340
Net assets at beginning of year	13,079,129	468,650	-	13,547,779	12,938,439
Net assets at end of year	$ 14,259,723	$ 468,650	$ -	$ 14,728,373	$ 13,547,779

MOMENTUM FOR MENTAL HEALTH
Statement of Functional Expenses
For the Year Ended June 30, 2014
With summarized financial information for the year ended June 30, 2013

	PROGRAM SERVICES				
	Crisis & Transitional Services	Outpatient Services	Day Treatment Services	June 30, 2014 Total Program Services	Comparative summary totals for the year ended June 30, 2013
Salaries	$ 5,077,021	$ 9,861,907	$ 1,112,137	$ 16,051,065	$ 14,831,508
Employee benefits	881,661	1,480,551	226,565	2,588,777	2,410,375
Payroll taxes	621,571	917,304	110,783	1,649,658	1,594,073
Total salaries & related expenses	6,580,253	12,259,762	1,449,485	20,289,500	18,835,956
Professional fees	53,971	455,018	15,051	524,040	414,162
Supplies	613,408	30,736	17,560	661,704	745,881
Telephone	43,891	89,699	36,458	170,048	159,649
Postage & shipping	310	4,791	583	5,684	6,007
Occupancy	568,559	366,954	65,990	1,001,503	953,809
Equipment rent & maintenance	63,183	58,252	10,570	132,005	145,958
Printing, subscriptions, & publications	296	-	719	1,015	2,584
Travel & transportation	71,262	161,893	9,862	243,017	258,621
Conference, conventions, & meetings	12,635	16,757	2,372	31,764	10,685
Specific assistance	44,256	451,810	920	496,986	483,110
Memberships, dues, & licenses	2,653	75	32	2,760	1,555
Interest expense	143,435	99,762	17,540	260,737	294,973
Advertising & recruitment	4,628	6,177	452	11,257	11,565
Insurance	142,233	153,963	23,060	319,256	307,638
Bad debts	300,060	-	-	300,060	300,060
Miscellaneous	14,187	9,629	11,013	34,829	15,188
Total expenses before depreciation	8,659,220	14,165,278	1,661,667	24,486,165	22,947,401
Depreciation	223,625	34,773	7,119	265,517	226,221
TOTAL EXPENSES	$ 8,882,845	$ 14,200,051	$ 1,668,786	$ 24,751,682	$ 23,173,622

MOMENTUM FOR MENTAL HEALTH
Statement of Functional Expenses
For the Year Ended June 30, 2014
With summarized financial information for the year ended June 30, 2013

	TOTAL PROGRAM SERVICES	SUPPORT SERVICES			JUNE 30, 2014 PROGRAM & SUPPORT SERVICES TOTALS	Comparative Summary Totals for the Year ended June 30, 2013
		Management & General	Development	Totals		
Salaries	$ 16,051,065	$ 2,822,189	$ 236,478	$ 3,058,667	$ 19,109,732	$ 17,680,294
Employee benefits	2,588,777	506,317	34,192	540,509	3,129,286	2,931,965
Payroll taxes	1,649,658	235,406	22,344	257,750	1,907,408	1,840,342
Total salaries & related expenses	20,289,500	3,563,912	293,014	3,856,926	24,146,426	22,452,601
Professional fees	524,040	606,988	48,262	655,250	1,179,290	902,481
Supplies	661,704	34,716	5,481	40,197	701,901	790,083
Telephone	170,048	44,724	4,777	49,501	219,549	203,105
Postage & shipping	5,684	3,923	986	4,909	10,593	10,978
Occupancy	1,001,503	98,744	12,248	110,992	1,112,495	1,051,385
Equipment rent & maintenance	132,005	22,032	8,708	30,740	162,745	174,215
Printing, subscriptions, & publications	1,015	804	19,766	20,570	21,585	20,236
Travel & transportation	243,017	39,582	1,212	40,794	283,811	304,403
Conference, conventions, & meetings	31,764	22,975	5,077	28,052	59,816	24,459
Specific assistance	496,986	-	-	-	496,986	483,105
Memberships, dues, & licenses	2,760	40,312	1,090	41,402	44,162	31,058
Interest expense	260,737	38,261	4,678	42,939	303,676	343,658
Amortization of bond costs	-	68,667		68,667	68,667	68,667
Advertising & recruitment	11,257	10,064	754	10,818	22,075	16,592
Insurance	319,256	59,697	2,571	62,268	381,524	363,899
Bad debts	300,060	-	-	-	300,060	300,060
Miscellaneous	34,829	7,635	9,380	17,015	51,844	23,214
Total expenses before depreciation	24,486,165	4,663,036	418,004	5,081,040	29,567,205	27,564,199
Depreciation	265,517	299,502	4,734	304,236	569,753	547,325
TOTAL EXPENSES	$ 24,751,682	$ 4,962,538	$ 422,738	$ 5,385,276	$ 30,136,958	$ 28,111,524

MOMENTUM FOR MENTAL HEALTH
Statements of Cash Flows
For the Years Ended June 30, 2014 and June 30, 2013

	2014	2013
Cash flows from operating activities:		
Increase in net assets from operations	$ 1,180,594	$ 609,340
Adjustments to reconcile increase in net assets from operations to net cash provided (used) by operating activities:		
Depreciation	569,753	547,325
Bond amortization	68,667	68,667
Changes in assets & liabilities:		
Decrease (increase) in accounts receivable	(448,264)	(153,928)
Decrease (increase) in grants receivable	945,331	(334,647)
Decrease (increase) in pledges receivable	3,260	2,751
Decrease (increase) in prepaid expenses	121,091	104,684
Decrease (increase) in deposits	(110,745)	(146,015)
(Decrease) increase in payables and accrued liabilities	270,134	16,515
(Decrease) increase in client deposits	45,099	19,530
Net cash provided (used) by operating activities	2,644,920	734,222
Cash flows from investing activities:		
Acquisition of building, land, & equipment	(172,633)	(126,914)
Net cash (used) provided by investing activities	(172,633)	(126,914)
Cash flows from financing activities:		
(Increase) decrease in deposits relating to bonds	(15,662)	(11,795)
Repayment of notes payable	(84,419)	(90,595)
Repayment of bond principal	(485,000)	(465,000)
Net cash used by financing activities	(585,081)	(567,390)
Net increase (decrease) in cash	1,887,206	39,918
Cash, beginning of year	4,013,908	3,973,990
Cash, end of year	$ 5,901,114	$ 4,013,908

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2014	2013
Cash paid during the year for:		
Interest	$ 272,799	$ 293,729
Income taxes	$ 0	$ 0
Noncash transactions:		
Assets acquired via loan	$ 0	$ 402,497
Cost basis of assets disposed of	$ 2,195,038	$ 0

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 3,800 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, 2014, 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, 2013, its most recent financial reporting, is:

Balance Sheet:	
Assets	$ 842,400
Liabilities	$1,042,400
Accumulated Deficit	(200,000)
	$ 842,400
Income Statement:	
Income	$ 257,300
Expenses	255,400
Change in Net Assets	$ 1,900

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.

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, 2014 and June 30, 2013 is $44,093 and $44,091, respectively, restricted for property repairs and improvements by the lenders.

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

Special Events
Special events are presented net of expenses of $27,219 for the year ended June 30, 2013.

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, 2010 through June 30, 2014 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, 2013, 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, 2014 and June 30, 2013 totaled $172,633 and $529,411, respectively. At June 30, 2014 and June 30, 2013, the cost and related accumulated depreciation for fixed asset components is as follows:

	2014	2013
Land and improvements	$ 4,237,078	$ 4,237,078
Buildings and improvements	14,488,052	14,545,360
Furniture, equipment, and improvements	1,088,288	3,049,133
Vehicles	206,983	206,983
	20,020,401	22,038,554
less: accumulated depreciation	8,739,200	10,360,233
Total	$ 11,281,201	$ 11,678,321

Depreciation expense charged to operations for the years ended June 30, 2014 and June 30, 2013 totaled $569,753 and $547,325, 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, 2014 and June 30, 2013, donated materials, supplies, and services totaled $28,300 and $12,411, respectively.

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, 2014 and 2013, $11,288 and $3,475, 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, 2014 and June 30, 2013:

	2014	2013
Accounts receivable:		
Program service fees	$ 1,980,294	$ 1,857,361
Less: allowance for doubtful accounts	301,460	626,791
Accounts receivable, net	$ 1,678,834	$ 1,230,570
Grants receivable:		
Santa Clara County, net of cost report reserves	$ 3,392,310	$ 4,396,596
Department of Rehabilitation	311,960	257,005
Other	9,969	5,969
Grants receivable, total	$ 3,714,239	$ 4,659,570
Pledges receivable:		
United Way designations and private parties	$ 28	$ 3,288

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, 2014, 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, 2013 to July 1, 2022	$ 510,000	$5,532,400

Terms of the bonds require the Agency to maintain certain financial measurements and conditions. As of June 30, 2014 and June 30, 2013, 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, 2014 and June 30, 2013 totaled $261,816 and $299,214, respectively. The future annual maturities for the bonds outlined above are as follows:

Year Ending June 30,	Amount
2015	$ 510,000
2016	535,000
2017	560,000
2018	585,000
2019	610,000
Thereafter	2,732,400
Total	$ 5,532,400

Intangible assets include deferred bond issue costs, relating to the 2003 bond placements, of $1,273,109, less accumulated amortization of $655,104. Amortization for the years ended June 30, 2014 and June 30, 2013 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, 2014, 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

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			$ -	$ 1,611,107

Interest expense incurred from these borrowings during the years ended June 30, 2014 and June 30, 2013 totaled $41,858 and $44,446, respectively.

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

Year Ending June 30,	Amount
2015	$ -
2016	-
2017	-
2018	-
2019	-
Thereafter	1,611,107
Total	$ 1,611,107

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 2015.

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.

8. LEASE COMMITMENTS:

The Agency is obligated under two long-term facility leases, expiring through November 2014, and various month-to-month facility leases for program facilities. The total expense incurred under these leases for the years ended June 30, 2014 and June 30, 2013 was $392,277 and $371,308, respectively. The future minimum lease commitment for these facility leases is as follows:

Year Ending June 30,	Amount
2015	$ 22,099

The Agency is also obligated under five 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, 2014 and June 30, 2013 was $56,527 and $87,650, respectively. The future minimum lease commitment for these equipment leases is as follows:

Year Ending June 30,	Amount
2015	$ 35,606
2016	31,371
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 $629,988 and $594,688 during the years ended June 30, 2014 and June 30, 2013, respectively. These matches have a five-year graduated vesting provision.

10. CONCENTRATIONS AND CONTINGENCIES:

At times during the fiscal years ended June 30, 2014 and June 30, 2013, the Agency maintained cash balances in excess of insured levels at various financial institutions. In addition, approximately 70% of the Agency's operating revenue base is derived from its largest government contract. 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.

11. RESTRICTED NET ASSETS:

As of June 30, 2014 and 2013, the Agency's temporarily restricted net assets consisted of the following:

	2014	2013
Time restrictions	$ 0	$ 0
Use restrictions		
HUD liens	468,650	468,650
Program specific use restrictions	-	-
Total temporarily restricted net assets	$ 468,650	$ 468,650

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, 2014 and June 30, 2013:

	2014	2013
Time restrictions		
United Way –	$ 0	$ 0
Use restrictions		
HUD liens satisfied		867,155
Program specific use restrictions satisfied	-	1,893
Total temporary restrictions released	$ -	$ 869,048

13. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through September 19, 2014, 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, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Program or Award Amount	Receipts/ Revenue Recognized	Disbursements/ Expenditures Incurred
Major programs				
Department of Education, passed through State of California Department of Rehabilitation Vocational Rehabilitation, Contract 28824	84.126A	$ 900,000	$ 900,000	$ 900,000
Totals -major programs		900,000	900,000	900,000
Total federal financial assistance		900,000	900,000	900,000
State & local government assistance				
City of Palo Alto, Outreach Services, Contract C-14151365		51,694	25,847	25,847
County of Santa Clara, Mental Health Services:				
MH Adult, PO 4300009659 (includes PATH)		13,747,150	13,626,413	13,626,413
MH Family & Children, PO 4300009660		732,019	732,019	732,019
MHSA FSP Adult, PO 4300009698		2,865,817	2,865,817	2,865,817
MHSA FSP TAY, PO 4300009700		732,478	726,361	726,361
MHSA CSS OPD Redesign, PO 4300009701		1,435,630	1,435,630	1,435,630
MHSA FSP Crisis Residential, PO 4300009703		2,073,191	2,035,049	2,035,049
MHSA CSS TAY Redesign, PO 4300009702		136,753	136,752	136,752
MHSA CSS THP, PO 4300009704		137,289	123,021	123,021
MHSA PEL REACH, PO 4300009706		675,000	661,300	661,300
MHSA PEI Adult, PO 4300009705		250,746	195,303	195,303
MHSA Bridge Redesign, PO 430000NEW		500,000	500,000	500,000
MHSA FSP AB-109, PO 4300009699		780,952	780,952	780,952
MHSA MORS Training, PO 4300006924		8,000	8,000	8,000
State of California, passed through Noridian, Medicare offsets		102,463	102,463	102,463
Total state & local government assistance		24,229,182	23,954,927	23,954,927
GRAND TOTALS		$ 25,129,182	$ 24,854,927	$ 24,854,927

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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, 2014, 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 19, 2014.

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 19, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Momentum for Mental Health's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Momentum for Mental Health's major federal programs for the year ended June 30, 2014. Momentum for Mental Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Momentum for Mental Health's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Momentum for Mental Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Momentum for Mental Health's compliance.

Opinion on Each Major Federal Program

In our opinion, Momentum for Mental Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Momentum for Mental Health is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Momentum for Mental Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Momentum for Mental Health's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nichols, Rick + Co.

Morgan Hill, CA
September 19, 2014

MOMENTUM FOR MENTAL HEALTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

A. Summary of Auditor's Results

I. Financial Statements

1. The independent auditor's report on the financial statements of Momentum for Mental Health expressed an unmodified opinion.

2. No significant deficiencies were disclosed in the audit of the financial statements.

II. Federal Awards

1. Internal Controls over Major Programs:
   a. No significant deficiencies or material weaknesses in internal control over major programs were disclosed in the audit of the financial statements.
   b. No instances of noncompliance material to the financial statements were disclosed in the audit of the financial statements.

2. The auditor's report on compliance for the major Federal awards programs for Momentum for Mental Health expressed an unmodified opinion.

3. There were no audit findings relating to major programs that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

4. The schedule of expenditures of Federal awards is reported on the accrual basis of accounting in conformity with generally accepted accounting principles as described in the notes to the financial statements.

5. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

6. Momentum for Mental Health qualified as a low risk auditee under OMB Circular A-133, Section 530.

7. The program tested as a major program is identified as follows:

CFDA Number	Name of Federal Program
84.126	Vocational Rehabilitation Services

B. Findings and Questioned Costs from Prior Audit

None noted on prior audit.