
MOMENTUM FOR MENTAL HEALTH

(a California non-profit organization)

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

**MOMENTUM FOR MENTAL HEALTH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

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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, 2018 and June 30, 2017, 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, 2018, 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, 2018 and June 30, 2017, the changes in its cash flows for the years then ended, and the changes in its net assets for the year ended June 30, 2018 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, 2018, 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 25, 2018 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, 2017 financial statements, and our report dated September 22, 2017, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nichols, Rick & Co.

September 25, 2018

MOMENTUM FOR MENTAL HEALTH
Statements of Financial Position
As of June 30, 2018 and June 30, 2017

	2018	2017
<u>ASSETS</u>		
Assets:		
Cash	\$ 5,149,358	\$ 7,297,849
Accounts receivable, net	2,271,792	2,353,125
Grants receivable	3,676,533	2,695,795
Pledges receivable	370	5,370
Investments	1,004,091	-
Prepaid expenses	237,458	287,955
Total current assets	12,339,602	12,640,094
Fixed assets, net	10,808,006	10,698,239
Deposits	583,820	594,823
Deposits relating to bonds	1,590,643	1,564,743
TOTAL ASSETS	\$ 25,322,071	\$ 25,497,899
<u>LIABILITIES & NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 443,298	\$ 211,722
Accrued salaries & vacation	2,894,033	2,769,128
Deposits held	90,938	87,938
Accrued interest, current portion	81,730	94,600
Bonds payable, current portion	610,000	585,000
Notes payable, current portion	-	-
Total current liabilities	4,119,999	3,748,388
Accrued interest, net	898,983	853,950
Bonds payable, net	2,457,798	2,999,131
Notes payable, net	1,611,107	1,611,107
Total long term liabilities	4,967,888	5,464,188
Total liabilities	9,087,887	9,212,576
Net assets:		
Unrestricted	16,094,184	16,154,986
Temporarily restricted	140,000	130,337
Permanently restricted	-	-
Total net assets	16,234,184	16,285,323
TOTAL LIABILITIES & NET ASSETS	\$ 25,322,071	\$ 25,497,899

MOMENTUM FOR MENTAL HEALTH
Statement of Activities
For the Year Ended June 30, 2018
With summarized financial information for the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2018 Totals	Comparative summary totals for the year ended June 30, 2017
SUPPORT & REVENUE					
Support received directly					
Contributions	\$ 95,293	\$ 154,200	\$ -	\$ 249,493	\$ 655,237
Contributions in-kind	4,924			4,924	31,289
Special events, net of \$174,926 expense	130,650			130,650	149,783
Support received indirectly					
United Way	2,478			2,478	2,106
Total Support	233,345	154,200	-	387,545	838,415
Revenue					
Government grants & fees	32,394,117			32,394,117	28,331,210
Interest & dividend income	25,078			25,078	6,800
Fees for services	7,641,380			7,641,380	7,688,760
Miscellaneous income	234,575			234,575	8,866
Total Revenue	40,295,150	-	-	40,295,150	36,035,636
Net assets released from restrictions	144,537	(144,537)	-	-	-
TOTAL SUPPORT & REVENUE	40,673,032	9,663	-	40,682,695	36,874,051
EXPENSES					
Program Services					
Crisis & Transitional Residential	10,593,992			10,593,992	9,600,852
Outpatient Services	22,389,824			22,389,824	19,384,099
Day Treatment Services	716,570			716,570	604,216
Total Program Services	33,700,386	-	-	33,700,386	29,589,167
Support Services					
Management & General	6,695,662			6,695,662	6,406,934
Development	337,786			337,786	382,274
Total Support Services	7,033,448	-	-	7,033,448	6,789,208
TOTAL EXPENSES	40,733,834	-	-	40,733,834	36,378,375
Change in net assets from operations	(60,802)	9,663	-	(51,139)	495,676
Net assets at beginning of year	16,154,986	130,337	-	16,285,323	15,789,647
Net assets at end of year	\$ 16,094,184	\$ 140,000	\$ -	\$ 16,234,184	\$ 16,285,323

MOMENTUM FOR MENTAL HEALTH

Statement of Functional Expenses

For the Year Ended June 30, 2018

With summarized financial information for the year ended June 30, 2017

	PROGRAM SERVICES				
	Crisis & Transitional Services	Outpatient Services	Day Treatment Services	June 30, 2018 Total Program Services	Comparative summary totals for the year ended June 30, 2017
Salaries	\$ 6,509,444	\$ 16,210,740	\$ 529,644	\$ 23,249,828	\$ 19,855,410
Employee benefits	859,118	2,168,665	57,928	3,085,711	2,602,075
Payroll taxes	769,417	1,439,325	54,898	2,263,640	1,990,092
Total salaries & related expenses	8,137,979	19,818,730	642,470	28,599,179	24,447,577
Professional fees	5,696	15,425	111	21,232	277,427
Supplies	713,407	175,884	9,603	898,894	853,639
Telephone	57,167	140,310	9,464	206,941	226,293
Postage & shipping	210	4,168	10	4,388	5,216
Occupancy	753,852	624,046	25,898	1,403,796	1,242,244
Equipment rent & maintenance	56,923	57,689	6,678	121,290	119,787
Printing, subscriptions, & publications	2,160	6	72	2,238	2,332
Travel & transportation	50,496	232,682	1,161	284,339	266,323
Conference, conventions, & meetings	6,215	24,514	63	30,792	39,244
Specific assistance	37,842	834,031	226	872,099	579,120
Memberships, dues, & licenses	1,280	30	-	1,310	3,854
Interest expense	104,861	69,182	4,750	178,793	200,392
Advertising & recruitment	4,804	12,050	-	16,854	19,216
Insurance	182,993	252,995	12,440	448,428	327,514
Bad debts	267,741	45,000	-	312,741	602,386
Miscellaneous	8,830	51,118	-	59,948	141,322
Total expenses before depreciation	10,392,456	22,357,860	712,946	33,463,262	29,353,886
Depreciation	201,536	31,964	3,624	237,124	235,281
TOTAL EXPENSES	\$ 10,593,992	\$ 22,389,824	\$ 716,570	\$ 33,700,386	\$ 29,589,167

MOMENTUM FOR MENTAL HEALTH
Statement of Functional Expenses
For the Year Ended June 30, 2018
With summarized financial information for the year ended June 30, 2017

	TOTAL PROGRAM SERVICES			JUNE 30, 2018 PROGRAM & SUPPORT SERVICES TOTALS			Comparative Summary Totals for the Year ended June 30, 2017
		SUPPORT SERVICES					
		Management & General	Development				
Salaries	\$ 23,249,828	\$ 4,168,480	\$ 213,110	\$ 4,381,590	\$ 27,631,418	\$ 24,074,397	
Employee benefits	3,085,711	652,833	35,155	687,988	3,773,699	3,277,522	
Payroll taxes	2,263,640	332,692	17,754	350,446	2,614,086	2,259,760	
Total salaries & related expenses	28,599,179	5,154,005	266,019	5,420,024	34,019,203	29,611,679	
Professional fees	21,232	594,440	24,957	619,397	640,629	821,872	
Supplies	898,894	81,489	2,920	84,409	983,303	958,704	
Telephone	206,941	45,086	4,542	49,628	256,569	281,552	
Postage & shipping	4,388	2,813	1,582	4,395	8,783	10,544	
Occupancy	1,403,796	120,405	12,027	132,432	1,536,228	1,365,288	
Equipment rent & maintenance	121,290	19,584	3,266	22,850	144,140	151,037	
Printing, subscriptions, & publications	2,238	4,047	4,030	8,077	10,315	20,679	
Travel & transportation	284,339	57,291	263	57,554	341,893	337,984	
Conference, conventions, & meetings	30,792	58,782	2,100	60,882	91,674	76,938	
Specific assistance	872,099	32	-	32	872,131	579,120	
Memberships, dues, & licenses	1,310	69,431	1,303	70,734	72,044	57,015	
Interest expense	178,793	24,410	1,235	25,645	204,438	230,178	
Amortization of bond costs	-	68,667	-	68,667	68,667	68,667	
Advertising & recruitment	16,854	37,613	3,609	41,222	58,076	57,292	
Insurance	448,428	86,096	3,906	90,002	538,430	391,429	
Bad debts	312,741	-	-	-	312,741	602,386	
Miscellaneous	59,948	33,963	4,409	38,372	98,320	279,604	
Total expenses before depreciation	33,463,262	6,458,154	336,168	6,794,322	40,257,584	35,901,968	
Depreciation	237,124	237,508	1,618	239,126	476,250	476,407	
TOTAL EXPENSES	\$ 33,700,386	\$ 6,695,662	\$ 337,786	\$ 7,033,448	\$ 40,733,834	\$ 36,378,375	

MOMENTUM FOR MENTAL HEALTH
Statements of Cash Flows
For the Years Ended June 30, 2018 and June 30, 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets from operations	\$ (51,139)	\$ 495,676
Adjustments to reconcile increase in net assets from operations to net cash provided (used) by operating activities:		
Depreciation	476,250	476,407
Bond amortization	68,667	68,667
Reinvestment of earnings from investments	(4,091)	
Changes in assets & liabilities:		
Decrease (increase) in accounts receivable	81,333	116,699
Decrease (increase) in grants receivable	(980,738)	721,280
Decrease (increase) in pledges receivable	5,000	(2,491)
Decrease (increase) in prepaid expenses	50,495	(34,218)
Decrease (increase) in deposits	11,005	(14,482)
(Decrease) increase in payables and accrued liabilities	388,644	231,689
(Decrease) increase in client deposits	3,000	20,011
Net cash provided (used) by operating activities	48,426	2,079,238
Cash flows from investing activities:		
Purchase of investments	(1,000,000)	
Acquisition of building, land, & equipment	(586,017)	(505,082)
Net cash (used) provided by investing activities	(1,586,017)	(505,082)
Cash flows from financing activities:		
(Increase) decrease in deposits relating to bonds	(25,900)	(57,638)
Repayment of bond principal	(585,000)	(559,933)
Net cash used by financing activities	(610,900)	(617,571)
Net increase (decrease) in cash	(2,148,491)	956,585
Cash, beginning of year	7,297,849	6,341,264
Cash, end of year	\$ 5,149,358	\$ 7,297,849

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:		
Interest	\$ 172,275	\$ 197,315
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, 2018**

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, 2018 the Agency had advanced \$3,628 to Home Base Homes, Inc. and charged \$23,581 for services and expenses during the year then ended. Key financial data for Home Base Homes, Inc. as of June 30, 2017, its most recent financial reporting, is:

<u>Balance Sheet:</u>	
Assets	\$ 778,167
Liabilities	\$ 979,919
Accumulated Deficit	<u>(201,752)</u>
	\$ 778,167
<u>Income Statement:</u>	
Income	\$ 275,164
Expenses	<u>275,808</u>
Change in Net Assets	\$ (644)

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, 2018**

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, 2018 and June 30, 2017 is \$66,845 and \$67,958, 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, 2014 through June 30, 2018 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, 2017, 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, 2018 and June 30, 2017 totaled \$586,017 and \$505,082, respectively. No asset impairment was recognized by the Agency during the years ended June 30, 2018 and June 30, 2017. At June 30, 2018 and June 30, 2017, the cost and related accumulated depreciation for fixed asset components is as follows:

	2018	2017
Land and improvements	\$ 4,237,078	\$ 4,237,078
Buildings and improvements	16,146,637	15,598,919
Furniture, equipment, and improvements	1,122,555	1,084,258
Vehicles	206,983	206,983
	21,713,253	21,127,238
less: accumulated depreciation	10,905,247	10,428,999
Total	\$ 10,808,006	\$ 10,698,239

Depreciation expense charged to operations for the years ended June 30, 2018 and June 30, 2017 totaled \$476,250 and \$476,407, 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, 2018 and June 30, 2017, donated materials, supplies, and services, including donations made for special events, totaled \$27,485 and \$93,921, respectively.

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018 and 2017, \$34,520 and \$31,754, 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. As of June 30, 2018, investments consisted entirely of certificates of deposit with rates varying from 1.6% to 2.3% maturing at various dates through October 2019. 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, 2018 and June 30, 2017:

	<u>2018</u>	<u>2017</u>
Accounts receivable:		
Program service fees	\$ 2,684,861	\$ 2,728,768
Less: allowance for doubtful accounts	<u>413,069</u>	<u>375,643</u>
Accounts receivable, net	<u>\$ 2,271,792</u>	<u>\$ 2,353,125</u>
Grants receivable:		
Santa Clara County, net of cost report reserves	\$ 3,597,791	\$ 2,631,688
Department of Rehabilitation	60,061	55,642
Other	<u>18,681</u>	<u>8,465</u>
Grants receivable, total	<u>\$ 3,676,533</u>	<u>\$ 2,695,795</u>
Pledges receivable:		
United Way designations and private parties	<u>\$ 370</u>	<u>\$ 5,370</u>

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2017, 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, 2018 to July 1, 2022	\$ 610,000	\$3,342,467

Terms of the bonds require the Agency to maintain certain financial measurements and conditions. As of June 30, 2018, the Agency was not 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, 2018 and June 30, 2017 totaled \$159,403 and \$185,144, respectively. The future annual maturities for the bonds outlined above are as follows:

Year Ending June 30,	Amount
2019	\$ 610,000
2020	635,000
2021	665,000
2022	705,000
Thereafter	<u>727,467</u>
Total bonds payable	3,342,467
Less bond issue costs	(274,669)
Less current portion	<u>(610,000)</u>
Non-current portion	<u>\$ 2,457,798</u>

Bond issue costs, relating to the 2003 bond placements, of \$1,273,109, are presented net of accumulated amortization of \$929,773. Amortization for the years ended June 30, 2018 and June 30, 2017 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, 2018, 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, 2018**

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	-	<u>109,997</u>
Totals			<u>\$ -</u>	<u>\$ 1,611,107</u>

Interest expense incurred from these borrowings during the years ended June 30, 2018 and June 30, 2017 totaled \$45,034 and \$45,034, respectively.

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

Year Ending June 30,	Amount
2019	\$ -
2020	-
2021	119,005
2022	-
Thereafter	<u>1,492,102</u>
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 .50%, subject to a 4% minimum rate, and expires October 2018. In addition to the line of credit, the Agency has an unused term loan commitment available for up to \$550,000 through September 2018.

7. REAL PROPERTY CONTINGENT LIABILITIES:

The Agency received a Community Development Block Grant (CDBG) from the City of San Jose, totaling \$468,650. This amount was secured by a Trust Deed and was forgiven in December 2016 as the subject property continued to be used in accordance with the grant provisions. Since the Agency intended to comply with the grant restrictions, the above amount was 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 would have generated a mandatory payment of principal.

**MOMENTUM FOR MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018 and June 30, 2017 was \$528,488 and \$468,362, respectively. The future minimum lease commitment for these facility leases is as follows:

Year Ending June 30,	Amount
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 2020. The total expense incurred under these leases for the years ended June 30, 2018 and June 30, 2017 was \$52,541 and \$33,368, respectively. The future minimum lease commitment for these equipment leases is as follows:

Year Ending June 30,	Amount
2019	\$ 48,023
2020	16,690

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 \$864,139 and \$781,488 during the years ended June 30, 2018 and June 30, 2017, respectively. These matches have a five-year graduated vesting provision.

10. CONCENTRATIONS AND CONTINGENCIES:

At times during the fiscal years ended June 30, 2018 and June 30, 2017, 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 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 2019.

The Agency, during the normal course of operating its business within the health care industry, 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 are 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, 2018**

11. RESTRICTED NET ASSETS:

As of June 30, 2018 and 2017, the Agency's temporarily restricted net assets consisted of the following:

	2018	2017
Time restrictions	\$ 0	\$ 0
Use restrictions		
HUD liens	-	-
Program specific use restrictions	140,000	130,337
Total temporarily restricted net assets	\$ 140,000	\$ 130,337

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, 2018 and June 30, 2017:

	2018	2017
Time restrictions	\$ 0	\$ 0
Use restrictions		
HUD liens satisfied		468,650
Program specific use restrictions satisfied	144,537	291,784
Total temporary restrictions released	\$ 144,537	\$ 760,434

13. RECENT ACCOUNTING PRONOUNCEMENTS:

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2016-02, "Leases", which will be effective for the Agency's financial statements during the year ending June 30, 2020. The new standard amends much of the existing accounting guidance on leases, with a core principle of increasing transparency and comparability among organizations by recognizing lease assets and leases liabilities on the statement of position and disclosing key information about leasing arrangements. In addition, the FASB has issued ASU No. 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities", which will be effective for the Agency's financial statements during the year ending June 30, 2019. This standard will significantly amend existing standards for the format of the financial statements and related disclosures. The Agency is still considering what effects, if any, these new standards will have on the Agency's financial statements and accounting policies.

14. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through September 25, 2018, 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, 2018

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		69,448	44,724	44,724
County of Santa Clara, Mental Health Services:				
MH Adult, PO 4300014559		20,399,447	16,466,854	16,466,854
MH Family & Children, PO 4300014516		934,380	902,054	902,054
MHSA FSP Adult, PO 4300014562		3,916,667	3,536,496	3,536,496
MHSA FSP TAY, PO 4300014518		1,286,772	1,208,312	1,208,312
MHSA CSS Adult Expansion, PO 4300014560		3,608,572	3,520,412	3,520,412
MHSA CSS Adult Expansion, PO 4300014514		891,310	421,632	421,632
MH Criminal Justice, PO 4300014515		499,069	499,069	499,069
MHSA CSS F&C Expansion, PO 4300014517		157,379	151,994	151,994
MH Adult, PO 4300014520		155,526	155,526	155,526
MHSA PEI REACH, PO 4300014519		871,570	817,978	817,978
MHSA CSS Adult and Older Adult, PO 4300014563		2,542,405	2,442,303	2,442,303
MHSA PEI Adult and Older Adult, PO 4300014564		288,558	14,480	14,480
MH FSP AB-109, PO 4300014513		1,289,265	1,289,265	1,289,265
MH Adult, U-621, PO 4300014561		20,774	20,774	20,774
State of California, passed through Noridian and Beacon, Medicare offsets		452,244	452,244	452,244
Total state & local government assistance		37,383,386	31,944,117	31,944,117
GRAND TOTALS		\$ 37,833,386	\$ 32,394,117	\$ 32,394,117

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, 2018, 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 25, 2018.

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.

September 25, 2018