

MENTAL HEALTH ASSOCIATION
OF ORANGE COUNTY

SINGLE AUDIT OF FEDERAL
ASSISTED GRANT PROGRAMS

JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors of
Mental Health Association
of Orange County
Orange, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Mental Health Association of Orange County (the "Association") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether

INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Responsibility (Continued)

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association'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 Association'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 statements.

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 Mental Health Association of Orange County as of June 30, 2014 and 2013 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other 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 Awards included on page 15-16, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, is presented for purposes of additional analysis and is not a required part of the 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 procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

INDEPENDENT AUDITORS' REPORT (Continued)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2014, on our consideration of Mental Health Association internal control over financial reporting and on 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 the 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 Mental Health Association's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Guzman & Gray".

Guzman & Gray, CPAs
Long Beach, California
December 15, 2014

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF FINANCIAL POSITION

ASSETS

	June 30,	
	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 724,189	\$ 701,440
Grants and program receivables	459,520	440,540
Prepaid expenses	21,024	20,294
Total Current Assets	1,204,733	1,162,274
FURNITURE AND EQUIPMENT, net	18,337	15,254
OTHER ASSETS		
Other assets		38
Trust account	133,313	133,330
TOTAL ASSETS	1,356,383	1,310,896

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	229,636	221,948
Payroll payable	101,732	104,727
Accrued vacation	56,271	62,108
Total Current Liabilities	387,639	388,783
OTHER LIABILITIES		
Trust account liability	133,313	133,330
Security deposit	2,320	2,320
Total Other Liabilities	135,633	135,650
NET ASSETS		
Unrestricted	833,111	786,463
TOTAL LIABILITIES AND NET ASSETS	\$ 1,356,383	\$ 1,310,896

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2014

	June 30,	
	2014	2013
SUPPORT AND REVENUE		
Grant revenues	\$ 4,885,036	\$ 5,577,903
Contributions	201,016	191,188
Program revenues	123,097	128,473
Special events, net	5,341	2,878
Thrift sales	46,984	40,435
Interest	128	186
In-kind contributions	39,661	42,130
Other Income	108,068	44,458
TOTAL SUPPORT AND REVENUE	5,409,331	6,027,651
 EXPENSES		
Program services	4,814,327	5,352,572
Management and general	483,542	538,583
Fundraising	64,814	71,674
TOTAL EXPENSES	5,362,683	5,962,829
 CHANGE IN NET ASSETS	46,648	64,822
 BEGINNING NET ASSETS	786,463	721,641
 ENDING NET ASSETS	\$ 833,111	\$ 786,463

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 46,648	\$ 64,822
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	5,925	14,932
(Increase) decrease in assets:		
Grants receivable	(18,980)	357,035
Prepaid expenses	(730)	11,109
Other assets	38	
Increase (decrease) in liabilities:		
Accounts payable	7,688	39,873
Payroll payable	(2,995)	(46,535)
Accrued vacation	(5,837)	(18,187)
Other liabilities	(17)	2,320
NET CASH FROM OPERATING ACTIVITIES	31,740	425,369
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(8,991)	(18,550)
NET CASH FROM INVESTING ACTIVITIES	(8,991)	(18,550)
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,749	406,819
BEGINNING CASH AND CASH EQUIVALENTS	701,440	294,621
ENDING CASH AND CASH EQUIVALENTS	\$ 724,189	\$ 701,440

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

INTEREST PAID	671	2066
INCOME TAXES PAID	NONE	NONE

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	Management and General	Fundraising	Total Expenses
SALARIES AND RELATED EXPENSES				
Salaries and wages	\$ 2,512,631	\$ 251,263	\$ 27,918	\$ 2,791,812
Payroll taxes	249,275	24,927	2,770	276,972
Employee benefits	356,257	35,626	3,958	395,841
TOTAL SALARIES AND RELATED EXPENSES	<u>3,118,163</u>	<u>311,816</u>	<u>34,646</u>	<u>3,464,625</u>
OTHER EXPENSES				
Rent and utilities	688,414	77,350	7,735	773,499
Professional fees	509,733	38,784	5,541	554,058
Direct client expenses	111,427			111,427
Repairs and maintenance	43,949	1,831		45,780
Office expenses	58,108	7,263	7,263	72,634
Telephone	43,637	16,831	1,870	62,338
Travel	69,259	1,413		70,672
Insurance	65,602	1,339		66,941
Equipment leases	40,553	7,913	989	49,455
Dues and subscriptions	14,419	4,606	1,001	20,026
Printing	1,144	1,798	5,231	8,173
Depreciation	4,266	1,659		5,925
Staff training	5,865	181		6,046
Interest	20	651		671
In-kind contributions	39,661			39,661
Other expenses	107	10,107	538	10,752
TOTAL OTHER EXPENSES	<u>1,696,164</u>	<u>171,726</u>	<u>30,168</u>	<u>1,898,058</u>
TOTAL EXPENSES	<u>\$ 4,814,327</u>	<u>\$ 483,542</u>	<u>\$ 64,814</u>	<u>\$ 5,362,683</u>

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
SALARIES AND RELATED EXPENSES				
Salaries and wages	\$ 2,779,672	\$ 277,967	\$ 30,885	\$ 3,088,524
Payroll taxes	237,386	23,739	2,638	263,763
Employee benefits	432,505	32,908	4,701	470,114
TOTAL SALARIES AND RELATED EXPENSES	<u>3,449,563</u>	<u>334,614</u>	<u>38,224</u>	<u>3,822,401</u>
OTHER EXPENSES				
Rent and utilities	682,606	76,697	7,670	766,973
Professional fees	568,708	43,271	6,182	618,161
Direct client expenses	191,817			191,817
Repairs and maintenance	60,859	2,536		63,395
Office expenses	54,011	6,751	6,751	67,513
Telephone	53,625	21,761	2,332	77,718
Travel	78,362	1,599		79,961
Insurance	100,088	2,043		102,131
Equipment leases	40,935	7,987	998	49,920
Dues and subscriptions	15,458	4,938	1,073	21,469
Printing	1,382	2,171	6,316	9,869
Depreciation	10,752	4,180		14,932
Staff training	1,910	58		1,968
Interest	62	2,004		2,066
In-kind contributions	42,130			42,130
Other expenses	304	27,973	2,128	30,405
TOTAL OTHER EXPENSES	<u>1,903,009</u>	<u>203,969</u>	<u>33,450</u>	<u>2,140,428</u>
TOTAL EXPENSES	<u>\$ 5,352,572</u>	<u>\$ 538,583</u>	<u>\$ 71,674</u>	<u>\$ 5,962,829</u>

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 1 – ORGANIZATION

The Orange County Association for Mental Health (doing business as the Mental Health Association of Orange County) is a California, non-profit corporation formed to improve the quality of life for Orange County residents impacted by mental illness. This mission is achieved through direct services, advocacy, education, and information dissemination.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting.

Basis of Presentation

The Association reports information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of each of these net asset classes is listed below.

Unrestricted net assets – Net assets that are not subject to donor imposed restrictions and that may be expendable for any purpose in performing the Association’s primary objectives.

Temporarily restricted net assets – Net assets subject to donor imposed stipulations that may or will be met either by actions of the Association and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. For the years ended June 30, 2014 and 2013, there were no temporarily restricted assets.

Permanently restricted net assets – Net assets are utilized to record resources received that are permanently restricted as to use by the donor or grantor. For the years ended June 30, 2014 and 2013, there were no permanently restricted assets.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent obligations at the date of the financial statements and accompanying notes.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Association has adopted the provisions of Fair Value Measurements and Disclosures for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Cash and Cash Equivalents

The Association considers all highly-liquid investments, which are readily convertible to known amounts of cash and which have an original maturity of three months or less, to be cash equivalents.

The Activity Center and the Homeless Program funding require that the Association hold cash in separate bank accounts.

Grants and Program Receivables

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Grant revenues earned, but not received, are recorded as a receivable.

Allowance for Doubtful Accounts

The Association uses the allowance method to record doubtful receivables. As of June 30, 2014 and 2013, the Association considers its receivables to be fully collectible and there is no allowance for doubtful accounts.

Furniture and Equipment

Furniture and equipment are carried at cost or, if donated, at the fair market value at date of donation. Depreciation is provided on the straight-line method over estimated useful lives of three to seven years. Additions and improvements that increase the capacity or lengthen the useful lives of the assets are capitalized. Repair and maintenance costs are expensed as incurred.

Grants and Program Income

Grant revenue and expenses relating to the Activity Center are recorded in the activity center group of accounts. General operations and programs are recorded in the operations group of accounts.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. All contributions are considered to be unrestricted unless specifically restricted by the donor. Any such contributions are recognized as an increase to the unrestricted restricted fund. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Fund-raising Events

The Association sponsors various special event fund-raisers as a means of generating revenues for its programs.

Donated Services and Goods

Contribution of services shall be recognized if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet the criteria shall not be recognized.

Donated goods are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated goods to a specific purpose.

Allocation of Functional Expenses

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

Exempt Organization Status and Income Taxes

The Association is exempt from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Tax Code. Contributions to the Association are deductible for tax purposes under Section 170(c)(2) of the Internal Revenue Code. The Association is involved in no activities that are subject to unrelated business tax. As a result, no provision for income taxes has been made.

The Association evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the tax positions will more likely than not be sustained upon examination. As of June 30, 2014, management does not believe the Association has any uncertain tax positions requiring accrual or disclosure. The Association is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Reporting of Subsequent Events

The Association has evaluated events and transactions for potential recognition or disclosure through December 15, 2014 which represents the date the financial statements were available to be issued.

NOTE 3 – GRANTS AND PROGRAM RECEIVABLES

Grants and program receivables consist of the following:

	June 30,	
	2014	2013
County of Orange	\$ 392,924	\$ 371,509
City of Anaheim	7,500	3,750
City of Santa Ana	1,914	5,182
Other	57,182	60,099
	\$ 459,520	\$ 440,540

NOTE 4 – FURNITURE AND EQUIPMENT, net

Furniture and equipment consists of the following:

	June 30,	
	2014	2013
Furniture and equipment	\$ 247,922	\$ 238,914
Less: accumulated depreciation	(229,585)	(223,660)
	\$ 18,337	\$ 15,254

For the years ending June 30, 2014 and 2013, depreciation expense was \$5,925 and \$14,932, respectively.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 5 – ACCRUED VACATION

The Association accrues a liability for all employee vacation time and compensated time off which has been earned but not paid. As of June 30, 2014 and 2013, the accrued vacation balances were \$56,271 and \$62,108, respectively.

NOTE 6 – LINE OF CREDIT

During June 2014, the Association renewed its line of credit from a bank for up to a maximum \$500,000. The interest rate is based on the Wall Street Journal Prime Rate plus 2 index points. As of June 30, 2014 and 2013, the line of credit bears an interest rate of 5.25% and is incurred on outstanding balances and payable on a monthly basis. All assets of the Association are collateral for the line of credit. As of June 30, 2014 and 2013, there was no outstanding balance.

NOTE 7 – SPECIAL EVENTS

The Association conducts special events in order to raise funds to support the Association's operations and various programs. All events are conducted in accordance with applicable Federal, State, and local laws and ordinances.

Revenues and expenses relating to special events are as follows:

	June 30,	
	2014	2013
Revenue	\$ 15,971	\$ 12,668
Less: direct donor benefits	(10,630)	(9,790)
	<u>\$ 5,341</u>	<u>\$ 2,878</u>

NOTE 8 – RETIREMENT PLAN

The Association has a retirement plan for employees consisting of a tax-sheltered annuity plan. Under the provisions of the plan, the Association is not required to make contributions, however, employees may make voluntary contributions up to 15% of salary. For the years ended June 30, 2014 and 2013, the Association made contributions to the plan of \$43,299 and \$51,077, respectively.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 9 – LEASE OBLIGATIONS

The Association is obligated under the terms of operating leases for the rental of certain facilities. For the years ended June 30, 2014 and 2013, total rental expenses were \$741,924 and \$731,725, respectively.

The Association entered lease agreements to rent office equipment. The lease agreements require fixed monthly base rate and variable usage amounts.

Future minimum payments associated with lease obligations are as follows:

Years Ending June 30,	Equipment	Rent	Total
2015	\$ 19,550	\$ 665,132	\$ 684,682
2016	16,811	685,831	702,642
2017	386	643,535	643,921
2018		303,801	303,801
2019 thereafter		206,544	206,544
	\$ 36,747	\$2,504,844	\$2,541,591

NOTE 10 – CONCENTRATIONS AND CONTINGENCIES

The Association provides services to the area of Orange County, California. For the years ended June 30, 2014 and 2013, the Association received 90% and 92% of its support from grants from various agencies and municipalities. Management applies for grant funding each year. The grants have various objectives and compliance requirements. Management is satisfied that all objectives and requirements have been met.

The Association maintains its cash and cash equivalents in financial institutions, which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash equivalents. Cash deposited in financial institutions differs from cash presented in the statement of financial position due to timing differences.

ADDITIONAL INFORMATION

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program Award Amount</u>	<u>Revenue Recognized</u>	<u>Total Disbursements/ Expenditures</u>
U.S. Department of Health and Human Services (Passed through the County of Orange)				
Mental Health Service Outpatient:				
Multi Service Center (PATH)	93.150	\$ 521,019	\$ 521,019	\$ 521,019
Multi Service Center (SAMHSA)	93.958	103,733	103,733	103,733
Total U.S. Department of Health and Human Services		<u>624,752</u>	<u>624,752</u>	<u>624,752</u>
U.S. Department of Housing and Urban Development				
Emergency Shelters Grant				
Anaheim	14.231	15,000	15,000	15,000
Santa Ana	14.231	15,348	15,348	15,348
Total U.S. Department of Housing and Urban Development		<u>30,348</u>	<u>30,348</u>	<u>30,348</u>
TOTAL FEDERAL AWARDS		<u>\$ 655,100</u>	<u>\$ 655,100</u>	<u>\$ 655,100</u>

See independent auditors' report and notes to financial statements

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2014 AND 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Mental Health Association of Orange County under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Because the Schedule presents only a selected portion of operations of the Association, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Mental Health Association of Orange County.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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INDEPENDENT AUDITORS' 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

Board of Directors of
Mental Health Association
of Orange County
Orange, CA

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 Mental Health Association of Orange County (the Association) which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association'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 the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 a 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 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.

INDEPENDENT AUDITORS' 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 (Continued)

Internal Control over Financial Reporting (Continued)

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section 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 the Association's financial statements are free of 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 audits, 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 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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Guzman & Gray CPAs
Long Beach, CA
December 15, 2014

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

Board of Directors of
Mental Health Association
of Orange County
Orange, CA

Report on Compliance for Each Major Federal Program

We have audited Mental Health Association of Orange County (the Association) 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 the Association's major federal programs for the years ended June 30, 2014 and 2013. The Association's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audits 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 audits 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 the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 (Continued)

Auditors' Responsibility (Continued)

We believe that our audits provide a reasonable basis for our opinion on compliance for each major federal program. However, our audits do not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2014 and 2013.

Report on Internal Control over Compliance

Management of the Association 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 audits of compliance, we considered the Association'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 federal 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 the Association'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 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.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 (Continued)

Purpose of 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.

A handwritten signature in cursive script, appearing to read "Guzman & Gray".

Guzman & Gray CPAs
Long Beach, CA
December 15, 2014

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2014

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? yes no

Significant deficiency identified that is not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Significant deficiency identified that is not considered to be a material weakness? yes none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.150	U.S. Department of Health and Human Services

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SECTION II – FINDINGS-FINANCIAL STATEMENT AUDIT

There are no financial statement findings required to be reported in accordance with Government Auditing Standards.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no major federal award program findings required to be reported by Section 510(a) of OMB Circular A-133.

MENTAL HEALTH ASSOCIATION OF ORANGE COUNTY
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

There were no prior year audit findings or questioned costs relative to federal awards.