



**CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2011 AND 2010**

California Mental Health Services Authority

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JUNE 30, 2011

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California Mental Health Services Authority

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James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Mental Health Services Authority
Sacramento, California

We have audited the accompanying financial statements of the governmental activities and major fund of California Mental Health Services Authority ("CalMHSA") as of and for the fiscal years ended June 30, 2011 and 2010, which collectively comprise CalMHSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CalMHSA's management. 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, the State Controller's Minimum Audit Requirements for California Special Districts, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of California Mental Health Services Authority as of June 30, 2011 and 2010, and the related changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2012, on our consideration of CalMHSA's 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* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual for the General Fund is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

James Marta & Company

James Marta & Company
Certified Public Accountants
January 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2011 AND 2010

Management of the California Mental Health Services Authority (“CalMHSA”) is pleased to present the following discussion and analysis that provides an overview of the financial position and activities of the Authority for the fiscal years ended June 30, 2011 and 2010. The discussion should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Overview of CalMHSA

In January 2007 and September 2007, the Mental Health Services Oversight and Accountability Commission (MHSOAC) approved five Prevention and Early Intervention (PEI) Statewide Projects and corresponding funding amounts. In May 2008, the MHSOAC determined that the three PEI Statewide Projects would be most effectively implemented through a single administrative entity. The three PEI Statewide Projects and their respective funding levels are as follows (in millions):

	<u>FY</u> <u>08/09</u>	<u>FY</u> <u>09/10</u>	<u>FY</u> <u>10/11</u>	<u>FY</u> <u>11/12</u>	<u>Total</u>
• Suicide Prevention	\$10	\$10	\$10	\$10	\$40
• Student Mental Health Initiative	\$15	\$15	\$15	\$15	\$60
• Stigma and Discrimination Reduction	\$15	\$15	\$15	\$15	\$60

The overall funding level for the three PEI programs noted above is \$160 million.

CalMHSA is an independent administrative and fiscal government agency focused on the efficient delivery of California mental health projects. On July 1, 2009, six California counties established CalMHSA as a Joint Powers Authority (JPA) to jointly develop and fund mental health services and education programs as determined on a regional, statewide or other basis, it shall be the intent of CalMHSA that all programs are fiscally self-contained requiring no additional funding from members. Accordingly, no member shall be obligated to fund CalMHSA or any program in an amount greater than the amount to which the member has previously agreed. The indirect costs to operate CalMHSA shall be allocated to each of the programs operated by CalMHSA as directed by its members. California counties may choose to implement the three statewide PEI programs through CalMHSA. CalMHSA members work together to develop, fund and implement PEI programs, on a statewide or regional basis that conform with the “Guidelines for PEI Statewide Programs” issued by the MHSOAC. Total funding available for the CalMHSA members as of June 30, 2011 was \$144.4 million.

CalMHSA is headed by a separate Board of Member Counties and an Executive Committee comprised of officers and Statewide Regional Representatives. It employs the administrative firm of George Hills Company, Inc. and separate legal counsel of Murphy Campbell Guthrie & Alliston. CalMHSA operates within the statutes governing Joint Powers Agreement entities.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011 AND 2010

CalMHSA has the capacity and capability to promote systems and services arising from a shared member commitment to community mental health. A central part of CalMHSA's vision is to promote systems and services arising from community mental health initiatives and to respect the values of the California Mental Health Services Act (Proposition 63). These are:

1. Community Collaboration;
2. Cultural Competence;
3. Client driven mental health system for individuals of any age who are receiving or have received mental health services;
4. Family driven mental health system for families of children and youth diagnosed with serious emotional disturbance;
5. Wellness, Recovery, and Resilience Focused; and
6. Integrated Service Experiences for clients and their families.

On April 15, 2010, CalMHSA executed a contract with the California Department of Mental Health (CDMH) for the amount not to exceed \$160 million. Specifically CalMHSA will, consistent with the requirements of the Mental Health Services Act (MHSA) and as approved by the Mental Health Services Oversight and Accountability Commission (MHSOAC) and CDMH, develop and implement Prevention and Early Intervention (PEI) programs, on a statewide or regional basis that conform with the "Guidelines for PEI Statewide Programs" issued by the MHSOAC and the three State Strategic Plans. The purposes of these programs will be reducing suicides, eliminating stigma and discrimination related to mental illness, and promoting student mental health. The term of this contract is April 15, 2010 through June 30, 2014.

Guiding Principles for Budget Development

The operations of CalMHSA included in these Financial Statements are:

- Technical Assistance/Capacity Building - \$339,600
- PEI Statewide Programs – Phase I – PEI Statewide Planning (5%) - \$6.8 Million
- PEI statewide Programs – Phase II – PEI Statewide Program Implementation - \$129 Million

Technical Assistance/Capacity Building

The guiding principles for budget development of this program are related to execution of contracts with service providers. Service providers are accountable to deliver the services in accordance to the specific contract.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011 AND 2010

PEI Statewide Programs

The Guiding principles for the PEI Statewide Programs are provided by CDMH Information Notice no. 10-06. These guidelines for PEI Statewide Programs provide Phase I approval for Planning Funds and Phase II approval to expend PEI statewide Funds on program implementation. CalMHSA is required to expend these funds on services by June 30, 2014.

Total PEI Statewide Funding, as governed by CDMH Information Notice No. 10-06, is \$160 Million funded over four years ending 2012. The budgetary requirements, facts and assumptions are described below.

1. The allocation of funding is defined with certain limits and the maximum percent by component are (CDMH Information Notice No. 10-06 defines Phase I and Phase II):
 - a. 5% Planning – Phase I funds
 - b. 80% Direct Service (inclusive of the required 10% operating reserve)
 - c. 7.5% Program Evaluation
 - d. 7.5% Indirect Administrative Costs
2. CalMHSA, at time of budget development had 29 member counties and 6 projected county members.
 - a. Total projected funding - \$136 Million
 - b. Phase I – \$6.8 Million
 - c. Phase II - \$129 Million
3. The JPA Agreement legally binds the JPA to the limit of funding by member and no cost overruns allowed. Thus the contingency of funding (operating reserve of 10%) is critical to the process.
4. We have utilized these maximum allocations as benchmarks, as well as defining limits for budget and procurement. It is, however, the intent of CalMHSA and its members to maximize the delivery of services. As a result this allocation shall be refined as more facts develop on an on-going basis.

Budget Highlights

Since the development of the initial budget, membership has exceeded management's expectations and is currently at 42 member counties. CalMHSA has received the additional funding for these counties which is \$8.2 million and will include this in our next budget process. As of December 2011, member counties have directed \$144,393,500 (\$160 million is statewide total) to CalMHSA.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011 AND 2010

Financial Highlights for the Fiscal Year Ended June 30, 2011

Operating revenue was \$102.6 million in fiscal year 2011. This was a \$98.8 million increase compared to fiscal year 2010. Thirty three counties joined CalMHSA in fiscal year 2011 which was the primary reason for the increase in revenue.

Operating expenses were \$1.7 million in fiscal year 2011. This was a \$1.4 million increase compared to 2010. Increased planning expenses for the implementation of the Prevention and Early Intervention (PEI) statewide initiatives was the main reason for the increase in total expenses.

Cash and cash equivalents was \$91.4 million as of June 30, 2011 compared to \$154,611 as of June 30, 2010. See operating revenue discussion above.

Total accounts receivable were \$13.2 million as of June 30, 2011 compared to \$3.4 million as of June 30, 2010. See operating revenue discussion above.

Description of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to CalMHSA's financial statements: the Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets. The statements are accompanied by footnotes to clarify unique accounting policies and other financial information, and required supplementary information. The assets, liabilities, revenues and expenses of CalMHSA are reported on a modified-accrual basis.

The **Statement of Net Assets** presents information on all of CalMHSA's assets and liabilities, with the difference between the two representing net assets (equity). Changes from one year to the next in total net assets as presented on the Statement of Net Assets are based on the activity presented on the Statement of Revenues, Expenses and Changes in Net Assets.

The **Statement of Revenues, Expenses and Changes in Net Assets** is CalMHSA's income statement. Revenues earned and expenses incurred during the year are classified as either "operating" or "nonoperating". All revenues and expenses are recognized as soon as the underlying event occurs, regardless of timing of the related cash flows.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of CalMHSA's operations and significant accounting policies as well as clarify unique financial information.

Analysis of Overall Financial Position and Results of Operations

The following sections provide additional details on the Agency's financial position and activities for fiscal years 2011 and 2010, and a look ahead at economic conditions that may affect CalMHSA in the future.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011 AND 2010

I. Statement of Net Assets

	<u>2011</u>	<u>2010</u>	<u>% Change Over Prior Year</u>
Current assets:			
Cash and cash equivalents	\$ 91,445,563	\$ 154,611	59046%
Accounts receivable	13,234,744	3,404,870	289%
Total Assets	<u>104,680,307</u>	<u>3,559,481</u>	2841%
Current liabilities:			
Accounts payable	<u>72,286</u>	<u>- (1)</u>	NM
Net assets	<u><u>\$ 104,608,021</u></u>	<u><u>\$ 3,559,481</u></u>	2839%

(1) Not measurable

CalMHSA's Pool Assets

Total assets increased by \$101.1 million to \$104.7 million at June 30, 2011. The increase occurred primarily in cash and cash equivalents. For the current fiscal year, CalMHSA collected \$92.8 in Prevention and Early Intervention (PEI) funding and paid \$1.6 million in operating expenses resulting in a \$91.3 million increase in cash and cash equivalents.

\$49.9 million is held in the Local Agency's investment Fund (LAIF), an external investment pool managed by the State Treasurer's Office and \$41.5 million is held by Morgan Stanley Smith Barney in a money fund. The effective yield at June 30, 2011 was .48% and .15% for LAIF and the Money Fund, respectively.

CalMHSA's cash and cash equivalents are recorded at fair value as of June 30, 2011. The LAIF balance included a \$78,601 unrealized market gain.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011 AND 2010

II. Statement of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>% Change Over Prior Year</u>
Operating revenues	\$ 102,616,050	\$ 3,825,214	2583%
Operating expenses:			
Program expenses	<u>1,675,824</u>	<u>265,733</u>	531%
Operating income	100,940,226	3,559,481	2736%
Nonoperating income	<u>108,314</u>	<u>- (1)</u>	NM
Increase in net assets	101,048,540	3,559,481	2739%
Net assets beginning of year	<u>3,559,481</u>	<u>- (1)</u>	NM
Net assets end of year	<u>\$ 104,608,021</u>	<u>\$ 3,559,481</u>	2839%

(1) Not measurable

Revenues (Operating and Nonoperating)

For the fiscal year ended, June 30, 2011, total revenue (operating and nonoperating) increased by \$98.9 million. At June 30, 2011 forty three counties were members of CalMHSA. Thirty three of the counties joined CalMHSA during the fiscal year ended, June 30, 2011. The increase in county membership was the driving factor for the increase in total revenue.

Expenses

For the fiscal year ended June 20, 2011, total expenses increased by \$1.4 million. CalMHSA began the planning phase for the implementation of the Prevention and Early Intervention (PEI) statewide initiatives and was the reason for the increase in total expenses. These Planning expenditures included:

- Implementation Plan Development
- Request for Proposals (RFP) to execute contracts for \$94 million for program services
- Contract Development for the \$94 million for program services
- Legal Services for participation in RFP process and contract development
- General and Administrative Services

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011 AND 2010

Economic Outlook

The administration of community and statewide mental health programs in California is undergoing significant change. The California Governor's 2012-2013 Budget has eliminated the California Department of Mental Health (DMH). The shift in the state's role in mental health may present additional opportunities for CalMHSA for statewide administration of programs. CalMHSA is currently positioned to administer additional Statewide Prevention & Early Intervention (PEI) projects and Statewide and Regional Workforce, Education, & Training (WET) Projects. These opportunities would extend beyond the existing contract with DMH which terminates June 30, 2014.

BASIC FINANCIAL STATEMENTS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

**GOVERNMENTAL FUND BALANCE SHEETS -
STATEMENTS OF NET ASSETS**

JUNE 30, 2011 AND 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS		
Cash and cash equivalents	\$ 91,445,563	\$ 154,611
Accounts receivable	13,234,744	3,404,870
Total Assets	<u>\$ 104,680,307</u>	<u>\$ 3,559,481</u>
LIABILITIES		
Accounts payable	\$ 72,286	\$ -
FUND BALANCE/NET ASSEETS		
Restricted	<u>104,608,021</u>	<u>3,559,481</u>
Total Liabilities and Fund Balance/Net Assets	<u>\$ 104,680,307</u>	<u>\$ 3,559,481</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

**STATEMENTS OF GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES –
STATEMENTS OF ACTIVITIES**

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
REVENUES:		
Technical assistance/capacity building	\$ -	\$ 339,614
PEI Statewide Programs - Planning	5,130,740	170,130
PEI Statewide - Program Implementation	97,484,060	3,232,470
Fees	1,250	83,000
Investment income	108,314	-
Total Revenue	<u>102,724,364</u>	<u>3,825,214</u>
EXPENDITURES/EXPENSES:		
PROGRAM EXPENSES:		
Technical assistance/capacity building:		
Contract expenses	<u>14,007</u>	<u>30,033</u>
Total Project Expense	<u>14,007</u>	<u>30,033</u>
PLANNING EXPENSES:		
General management	1,248,118	158,000
Other contract services	207,056	10,000
Legal services	123,864	57,675
Insurance	2,500	2,500
Meetings	72,995	4,091
Web site & other	3,008	3,434
Marketing/Promotional materials	3,478	-
Miscellaneous	798	-
Total Operating Expenses	<u>1,661,817</u>	<u>235,700</u>
Change in Fund Balance/Net Assets	101,048,540	3,559,481
FUND BALANCE/NET ASSETS		
Beginning of year	<u>3,559,481</u>	<u>-</u>
End of year	<u>\$ 104,608,021</u>	<u>\$ 3,559,481</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

California Mental Health Services Authority ("CalMHSA") is an independent administrative and fiscal government agency focused on the efficient delivery of California Mental Health Projects. CalMHSA was established by a Joint Powers Agreement on July 1, 2009, under Government Code Section 6500 et seq. among California Counties to obtain and administer public funds to provide certain community mental health services to persons residing within the same counties and cities. Member counties jointly develop, fund and implement mental health services, projects, and educational programs at the state, regional, and local levels. CalMHSA is governed by a Board of Directors, which is composed of the local county or city mental health director from each member, appointed or designated. As of June 30, 2011, there are 39 member counties.

Admission

To be accepted for membership in CalMHSA, counties must complete an application form and submit the required application fee. The application fee ranges from \$250 - \$1,000 depending on the most recent county population figures published by the State Department of Finance. Counties must then submit a signed participation resolution to CalMHSA that has been approved by the county's Board of Supervisors, execute the Joint Powers Authority Agreement and agree to be bound by any subsequent amendments to the agreement, designate an alternate to the Board as representative and complete the required Fair Political Practices Commission (FPPC) forms.

Withdrawal

A member may withdraw from CalMHSA upon written notice no later than December 31 of the fiscal year if it has never become a participant in any program or if it had previously withdrawn from all programs in which it was a participant. A member who withdraws from CalMHSA is not entitled to the return of any payments to the Authority.

CalMHSA is not a legislative agency, nor an approval or advocacy body. CalMHSA is a best practice inter-governmental structure with growing capacity and capability to promote systems and services arising from a shared member commitment to community mental health. CalMHSA supports the values of the California Mental Health Services Act:

- Community collaboration
- Cultural competence
- Client/family-driven mental health system for children, transition age youth, adults, older adults
- Family-driven system of care for children and youth
- Wellness focus, including recovery and resilience
- Integrated mental health system service experiences and interactions

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY (Continued)

The Mental Health Services Act (Proposition 63), passed in November 2004, provides the first opportunity in many years for the California Department of Mental Health (DMH) to provide increased funding, personnel and other resources to support county mental health programs and monitor progress toward statewide goals for children, transition age youth, adults, older adults and families. This Act imposes a 1% income tax on personal income in excess of \$1 million and provides the counties of California the funds needed to set up contract services for strategies to reduce the following negative outcomes that may result from untreated mental illness:

- Suicide
- Incarcerations
- School failure or dropout
- Unemployment
- Prolonged suffering
- Homelessness
- Removal of children from their homes

As the counties are responsible to use these funds as stated, CalMHSA was established in 2009 to help with the contracting of these services.

B. BASIS OF PRESENTATION

The statement of net assets and the statement of activities display information about CalMHSA. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

The government-wide statement of net assets presents information on all of CalMHSA's assets and liabilities, with the difference between the two presented as net assets. Net assets are reported as one of three categories: invested in capital assets, net of related debt; restricted or unrestricted. Restricted net assets are further classified as either net assets restricted by enabling legislation or net assets that are otherwise restricted.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of CalMHSA's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function. CalMHSA does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of CalMHSA. CalMHSA reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements

Fund financial statements report detailed information about CalMHSA. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. CalMHSA has only one operating fund.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments and service charges are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

Governmental Fund Financial Statement

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which CalMHSA receives value without directly giving equal value in return, include program funding, assessments and interest income. Under the accrual basis, revenue from program funding and assessments is recognized in the fiscal year for which the program funding and assessments are levied. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

CalMHSA executed a contract with the California Department of Mental Health (CDMH) for an amount not to exceed \$160 million. This contract has been funded exclusively from funds in the "PEI State-Administered Projects Planning Estimates", now called the "PEI State-Administered Component Allocations", published on September 11, 2008. These funds were classified as a voluntary nonexchange transaction and recorded on a modified accrual basis of accounting because CalMHSA operates with one governmental fund. GASB 33 specifies that revenue from voluntary nonexchange transactions accounted for on the modified accrual basis of accounting be recognized in the period when all applicable eligibility requirements have been met and the resources are available. For CalMHSA, revenue was recognized when counties became official members of CalMHSA and when the funding request was received by the CDMH.

Expenditures were recorded under the modified accrual basis of accounting when the related liability was incurred.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

D. FUND ACCOUNTING

The accounts of CalMHSA are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. CalMHSA resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. CalMHSA has one governmental fund.

Governmental Fund:

The General Fund is the general operating fund of CalMHSA. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

E. CASH AND CASH EQUIVALENTS

CalMHSA considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

F. INCOME TAXES

CalMHSA is a governmental entity and as such its income is exempt from taxation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

G. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

H. FUND BALANCE

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions"*, CalMHSA is required to report fund balances in the following categories, as applicable: Nonspendable, Restricted, Committed, Assigned and/or Unassigned.

Nonspendable Fund Balance reflects assets not in spendable form, either because they will never convert to cash (e.g. prepaid expense) or must remain intact pursuant to legal or contractual requirements.

Restricted Fund Balance reflects amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

H. FUND BALANCE (Continued)

Committed Fund Balance reflects amounts that can be used only for the *specific purposes* determined by a formal action of the government's highest level of decision-making authority: the Board of Directors. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned Fund Balance reflects amounts intended to be used by the government for *specific purposes* but do not meet the criteria to be classified as restricted or committed. In accordance with adopted policy, only the Board of Directors is authorized to assign amounts for specific purposes.

Unassigned Fund Balance represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

When expenditures are incurred for purposes of which restricted, committed, assigned and unassigned fund balances are available, CalMHSA considers restricted funds to have been spent first, followed by committed, assigned and unassigned, respectively.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash in banks	\$ 4,619	\$ 154,611
Money Market Account	41,503,362	-
LAIF	49,937,582	-
	<u>\$ 91,445,563</u>	<u>\$ 154,611</u>

Cash in Bank

As of June 30, 2011 and 2010, CalMHSA's balances per the bank of \$153,323 and \$154,611 respectively, are insured by the Federal Depository Insurance Corporation up to \$250,000. Section 53652 of the California Governmental Code requires financial institutions to secure deposits made by governmental units in excess of insured amounts, by the pledging of governmental securities as collateral. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by governmental units.

Money Market Account

As of June 30, 2011, CalMHSA's had cash in a money fund managed by Morgan Stanley Smith Barney LLC.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

2. CASH AND CASH EQUIVALENTS (Continued)

Local Agency Investment Fund

CalMHSA places certain funds with the State of California's Local Agency Investment Fund (LAIF). The Authority is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. These pooled funds are carried at cost, which approximates market value and is reported in the accompanying financial statements based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. The monies held in the pooled investment funds are not subject to categorization by risk category. LAIF is currently unrated and has an average life of 237 days.

LAIF is administered by the State Treasurer and is audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized.

3. ACCOUNTS RECEIVABLE

The accounts receivable balance represents amounts due for counties who have become members of CalMHSA, but whose funds have not yet been released by the California Department of Mental Health Services as of June 30, 2011.

4. CONTRACT SERVICES

CalMHSA does not have any employees and contracts for all necessary services. This includes contracts for the development and implementation of prevention and early intervention (PEI) programs on a statewide and regional basis. Currently, CalMHSA has awarded twenty four contracts to twenty two vendors. See www.calmhsa.org for a complete list of the statewide PEI approved contractors.

5. SUBSEQUENT EVENTS

CalMHSA's management evaluated its 2011 financial statements for subsequent events through the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES			
Technical Assistance/Capacity Building	\$ 100,000	\$ -	\$ (100,000)
Community Planning	4,086,312	5,130,740	1,044,428
PEI State Wide Program Funding	11,318,977	97,484,060	86,165,083
Application Fees	-	1,250	1,250
Administrative Fees	-	-	-
Investment Income	-	108,314	108,314
Total Revenue	15,505,289	102,724,364	87,219,075
EXPENSES			
<u>Program Expenses:</u>			
Technical Assistance/Capacity Building - Cimh C	100,000	14,007	85,993
PEI State Wide Program Funding	10,000,000	-	10,000,000
Planning Expense	4,086,312	1,661,817	2,424,495
Total Program Expenses	14,186,312	1,675,824	12,510,488
<u>General and Administrative Expenses</u>			
General Management	635,333	-	635,333
Other Contract Services	123,069	-	123,069
Legal Services	149,624	-	149,624
Financial Audit	18,388	-	18,388
Insurance	24,518	-	24,518
Meetings	91,424	-	91,424
Member Services	51,393	-	51,393
Fees	12,000	-	12,000
Web Site & Other	24,518	-	24,518
Travel & Lodging	12,259	-	12,259
Marketing/PR Materials	12,265	-	12,265
Miscellaneous	41,116	-	41,116
Indirect Expense Reserve	123,070	-	123,070
Total General and Administrative Expenses	1,318,977	-	1,318,977
Total Expenses	15,505,289	1,675,824	13,829,465
Change in Fund Balance/Net Assets	-	101,048,540	101,048,540
FUND BALANCE/NET ASSETS			
Beginning of year	3,559,481	3,559,481	3,559,481
End of year	\$ 3,559,481	\$ 104,608,021	\$ 101,048,540

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES			
Technical Assistance/Capacity Building	\$ 1,281,114	\$ 339,614	\$ (941,500)
Community Planning	936,960	170,130	(766,830)
PEI State Wide Program Funding	17,802,240	3,232,470	(14,569,770)
Application Fees	10,000	83,000	73,000
Administrative Fees	-	-	-
Investment Income	120,000	-	(120,000)
Total Revenue	20,150,314	3,825,214	(16,325,100)
EXPENSES			
<u>Program Expenses:</u>			
Technical Assistance/Capacity Building - Cimh C	1,088,947	30,033	1,058,914
PEI State Wide Program Funding	15,823,320	-	15,823,320
Formation Fee Allocation	105,000	-	105,000
Planning Expenses		235,700	
Total Program Expenses	17,017,267	265,733	16,987,234
<u>General and Administrative Expenses</u>			
General Management	780,000	-	780,000
Other Contract Services	-	-	-
Legal Services	30,000	-	30,000
Financial Audit	15,000	-	15,000
Insurance	20,000	-	20,000
Meetings	40,000	-	40,000
Member Services	-	-	-
Fees	5,000	-	5,000
Web Site & Other	10,000	-	10,000
Travel & Lodging	20,000	-	20,000
Marketing/PR Materials	25,000	-	25,000
Miscellaneous	20,000	-	20,000
Indirect Expense Reserve	-	-	-
Total General and Administrative Expenses	965,000	-	965,000
Total Expenses	17,982,267	265,733	17,952,234
Change in Fund Balance/Net Assets	2,168,047	3,559,481	1,627,134
FUND BALANCE/NET ASSETS			
Beginning of year	-	-	-
End of year	\$ 2,168,047	\$ 3,559,481	\$ 1,391,434

SUPPLEMENTARY INFORMATION



James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

**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
California Mental Health Services Authority
Sacramento, California

We have audited the financial statements of California Mental Health Services Authority (CalMHSA) as of and for the year ended June 30, 2011 and 2010, and have issued our report thereon dated January 24, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

Management of CalMHSA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered CalMHSA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CalMHSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CalMHSA's internal control over financial reporting.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CalMHSA'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 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*.

This report is intended for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "James Marta & Company". The signature is written in a cursive, flowing style.

James Marta & Company
Certified Public Accountants
January 24, 2012