

**CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2015 AND 2014**



California Mental Health Services Authority

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JUNE 30, 2015

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California Mental Health Services Authority

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Mental Health Services Authority
Sacramento, California

Report on the Financial Statements

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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise CalMHSA's basic financial statements as listed in the table of contents.

Managements 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 or the minimum requirements prescribed by the State Controller's Office for special district audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 misstatement 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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2015 and 2014, and the respective changes in financial position for the fiscal 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Statement of Revenues, Expenditures and Change in Fund Balance – Budget (Non-GAAP) and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2015 on our consideration of California Mental Health Services Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

James Marta & Company LLP

James Marta & Company
Certified Public Accountants
Sacramento, California
December 4, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Management of 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, 2015 and 2014. The discussion should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Overview of CalMHSA

CalMHSA is an independent administrative and fiscal government agency focused on the efficient delivery of California mental health projects. On June 11, 2009, six California counties established CalMHSA as a Joint Powers Authority (JPA) to jointly develop, fund and implement mental/behavioral health projects and educational programs at the state, regional and local levels. California county members can act alone or in collaboration, to participate in the statewide Prevention and Early Intervention (PEI) projects, contract and/or negotiate with State or other providers for mental hospital beds, contract and/or negotiate with the State or federal government for administration of mental health services, operate program risk pools, technical assistance and capacity building program, workforce education training program, and other projects as deemed appropriate.

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, specializing in JPA management, of George Hills Company, Inc. and separate legal counsel of Murphy Campbell Guthrie & Alliston. CalMHSA operates within the statutes governing Joint Powers Agreement entities and complies with the Brown Act open meeting requirements.

As of June 30, 2015, 52 members (50 counties, one city and one JPA) 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 Mental Health Services Oversight and Accountability Commission (MHSOAC). Total funding available for the CalMHSA members was \$147 million. Since the development of the initial budget, membership has exceeded management's expectations and is currently at 52 members. As of October 2013, member counties had directed \$147 million (\$160 million is statewide total) to CalMHSA.

Background

In 2004, California voters passed Proposition 63 (The Mental Health Services Act) (MHSA), landmark legislation that created an ongoing funding source and a framework for transforming California's traditional community mental health system into a system equipped to support prevention and wellness, and on addressing the unmet needs of California's diverse and underserved population groups with culturally relevant and effective services and education. In 2007, the MHSOAC, which was created as a stipulation of the MHSA to oversee the management of these funds, approved a one-time investment of \$160 million over four-years. Three strategic initiatives were identified through a stakeholder process and approved by the MHSOAC in May 2008, for the distribution of this one-time allocation: \$40 million

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

for Suicide Prevention (SP), \$60 million for Student Mental Health (SMH), and \$60 million for Stigma and Discrimination Reduction (SDR).

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 MHSA and as approved by the MHSOAC and CDMH, develop and implement 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. 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. The term of this contract was April 15, 2010 through June 30, 2014. In January 2011, the MHSOAC approved the CalMHSA PEI Statewide Projects Implementation Work Plan. A total of 25 providers were identified through an RFP process to implement the Work Plan by June 30, 2014.

2014/2015 Program Highlights

Phase I & Phase II – Sustainability

With the end of the four-year period nearing, the CalMHSA Board of Directors adopted a two-phase planning strategy for continuing the investment in statewide PEI efforts. In April 2014, the CalMHSA Board approved a Phase I Funding Plan to sustain the existing Statewide PEI projects through June 30, 2015. Phase I continues some of the current CalMHSA PEI Statewide Projects existing funds and a winding down of others pursuant to the guidance of stakeholders and Board. Phase I is recognized as a short-term sustainability solution for the purpose of providing program partners with additional time to successfully complete their activities and deliverables, and to reduce the risk of any adverse consequences of discontinuing activities (e.g., the ability to measure long-term impact).

Additionally, in August 2014, the CalMHSA Board approved a Phase II Funding Plan for purpose of continuing work related to PEI projects through June 30, 2017. Funding for Phase I and Phase II is derived from current county members committing a range of 1% to 7% funding from their local PEI funds for the next three fiscal years, in addition to CalMHSA seeking other funding to include state and federal resources.

7th International "Together Against Stigma" Conference

The 7th International "Together Against Stigma" Conference was held for the first time in the United States in San Francisco February 18-20, 2015 on behalf of CalMHSA, the World Psychiatric Association, the California Institute for Behavioral Health Solutions, and the County Behavioral Health Directors Association of California. The stigma of mental health challenges is not exclusive to any one country or culture. The 7th International Conference: Each Mind Matters brought together over 750 prominent and diverse voices committed to working together to address the stigma people living with mental health challenges are subjected to in other countries and in the United States on a daily basis. Held for the first time in the United States, the gathering hosted experts, researchers, advocates and emerging leaders in mental health advocacy from 17 countries. Three days were packed with thought provoking panels, new research, and inspiring testimony where mental health experts and advocates came together to tackle

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challenges, share promising practices and spotlight successes in combating stigma worldwide. Each Mind Matters: California's Mental Health Movement reached a global audience at the conference that spotlighted the innovations and outcomes pioneered by leading mental health partners.

Financial Highlights for the Fiscal Year Ended June 30, 2015

Revenues	\$ 7.2 million	Revenues increased \$5.4 million over the prior year. The rise in revenues was primarily due to funding for Phase I sustainability.
Expenses	\$27.5 million	Expenses decreased \$34.1 million or 55% over the prior year. The budget for current year Phase I sustainability contracts was significantly less than prior year which reflected payments to contractors for final execution of deliverables from the initial PEI programs.
Assets	\$15.0 million	Assets decreased \$30.8 million over the prior year due to payments to contractors made during the year.
Liabilities	\$ 4.6 million	Liabilities decreased \$10.4 million over the prior year. As deliverables were received and contracts were closed out, this resulted in less amounts owed to contractors at year-end.

Description of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to CalMHSA's financial statements: the Statement of Net Assets and the Statement 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 full-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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Analysis of Overall Financial Position and Results of Operations

The following sections provide additional details on CalMHSA's financial position and activities for fiscal years 2015 and 2014, and a look ahead at economic conditions that may affect CalMHSA in the future.

I. Statement of Net Position

	2015	2014	2013	Change Over Prior Year
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 14,220,664	\$ 875,222	\$ 14,250,192	1525%
Investments - current portion		43,931,766	53,969,429	-100%
Contractor prepayments			368,996	
Accounts receivable	788,380	979,768	580,592	-20%
Total Current Assets	<u>15,009,044</u>	<u>45,786,756</u>	<u>69,169,209</u>	-67%
Investments - Noncurrent			<u>27,449,689</u>	
Total Assets	<u>15,009,044</u>	<u>45,786,756</u>	<u>96,618,898</u>	-67%
LIABILITIES				
Current Liabilities				
Accounts payable	4,481,941	14,992,620	6,041,242	-70%
Deferred revenue	122,345	39,185		212%
WET Program Funding				
Total Current Liabilities	<u>4,604,286</u>	<u>15,031,805</u>	<u>6,041,242</u>	-69%
RESTRICTED NET POSITION	<u>\$ 10,404,758</u>	<u>\$ 30,754,951</u>	<u>\$ 90,577,656</u>	-66%

Cash and cash equivalents increased \$13.3 million, from \$875,222 as of June 30, 2014, to \$14,220,664 as of June 30, 2015. CalMHSA's investments of \$43.9 million as of June 30, 2014, matured during the year. This resulted in the increase in cash and cash equivalents, highly liquid investments with a maturity of three months or less when purchased.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Total assets decreased by \$30.8 million from \$45.8 million at June 30, 2014 to \$15.0 million at June 30, 2015. The assets were expected to decrease as payments to contractors for final deliverables and production of products were made.

Liabilities decreased \$10.4 million over the prior year. Final deliverables for the initial PEI programs were received and contracts were closed out during the fiscal year ended June 30, 2015. Since payments for these contracts were made during the year, it resulted in less amounts owed to contractors at year-end.

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

	2015	2014	2013	Change Over Prior Year
Operating revenues	\$ 7,095,078	\$ 1,462,874	\$ 754,021	385%
Operating expenses:				
Program expenses	26,200,594	60,500,806	38,241,533	-57%
Indirect expenses	1,336,150	1,089,271	1,150,716	23%
Total operating expenses	<u>27,536,744</u>	<u>61,590,077</u>	<u>39,392,249</u>	-55%
Operating income/(loss)	(20,441,666)	(60,127,203)	(38,638,228)	-66%
Nonoperating income	<u>91,473</u>	<u>304,498</u>	<u>495,555</u>	-70%
Increase/(decrease) in net assets	(20,350,193)	(59,822,705)	(38,142,673)	
Net position, beginning of year	30,754,951	90,577,656	128,720,329	-66%
Net position, end of year	<u>\$ 10,404,758</u>	<u>\$ 30,754,951</u>	<u>\$ 90,577,656</u>	-66%

For the fiscal year ended, June 30, 2015, total revenue (operating and nonoperating) increased by \$5.4 million. Operating revenue increased \$5.6 million over fiscal year 2014 primarily due to new funding for Phase I Sustainability (\$6.3 million), International SDR Conference Registration fees (\$326,663) and an increase in State Hospital Bed funding (increase of \$165,686) offset by a decrease in funding for TTACB (\$668,600).

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Operating expenses were \$27.5 million in fiscal year 2015. This was a \$34.1 million or 55% decrease compared to 2014. During the fiscal year 2012, CalMHSA entered into 28 contracts with 28 program partners through June 30, 2014. Expenditures on these contracts for fiscal year 2014 were high as they focused on final execution of deliverables and production of products. The budget for current year Phase I sustainability contracts is significantly less than that of the initial PEI programs.

Description of Facts or Conditions that are expected to have a Significant Effect on Financial Position or Results of Operations

As mentioned earlier, the CalMHSA Board approved a Phase II Funding Plan for the purpose of continuing work related to PEI projects through June 30, 2017. The Plan builds upon the initial statewide PEI investment by bringing three current initiatives (i.e., SP, SDR and SMH) together under one common umbrella – Each Mind Matters. Each Mind Matters will provide a branded comprehensive campaign and recognizable messaging across the state to support a movement in California to promote mental health and wellness and reduce the likelihood of mental illness, substance use and suicide among all Californians. By organizing multiple activities under Each Mind Matters, California can continue to make strides in preventing mental illness, substance use disorders and suicide, improving student mental health, increasing open-mindedness and compassion toward persons experiencing mental health and substance use challenges, and improving health equity by addressing the specific needs of California's diverse ethnic, racial and cultural communities.

The magnitude of this Plan will require a phased approach and diverse sources of funding. The Phase II Plan is designed to support and enhance local PEI work and counties will be expected to make a financial commitment to help reach this financial goal. Significant contributions from county PEI allocations of at least five-percent annually, on average, from each county will be important to meet this financial goal and to demonstrate sufficient commitment on the part of county behavioral health in order to successfully leverage the commitment of partners from other sectors (e.g., primary care, public safety, education, public health). Other funding sources that will need to be considered to raise the balance of the funds are fee-for-service, government and private foundation grants, and federal and non-MHSA state funding streams. It may even be necessary to consider requiring applicants to demonstrate their ability to secure matching funds in order to be competitive in the contract bidding process.

BASIC FINANCIAL STATEMENTS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

**GOVERNMENTAL FUND BALANCE SHEET -
STATEMENT OF NET POSITION**

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 14,220,664	\$ 875,222
Investments- Current Portion	-	43,931,766
Receivables	788,380	979,768
Total Current Assets	<u>\$ 15,009,044</u>	<u>\$ 45,786,756</u>
 LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 4,481,941	\$ 14,992,620
Unearned PEI Program funding	122,345	39,185
Total Current Liabilities	<u>4,604,286</u>	<u>15,031,805</u>
 FUND BALANCE / NET POSITION		
Net Postion:		
Restricted		
Tech asst/capacity building	203,448	239,597
Operations	796,788	884,807
PEI funding	5,006,023	29,016,637
WET Program Funding	148,470	148,470
Feasibility Funding	259,561	271,130
SHB Program Funding	540,032	194,310
Phase I Sustainability	3,450,436	-
Total Restricted	<u>10,404,758</u>	<u>30,754,951</u>
 Total Liabilities and Fund Balance/Net Position	 <u>\$ 15,009,044</u>	 <u>\$ 45,786,756</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES/NET POSITION –
STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
REVENUES:		
Technical Assistance/Capacity Building	\$ -	\$ 668,600
PEI Statewide Programs - Planning	-	11,080
PEI Statewide - Program Implementation	-	210,520
SHB Funding	437,943	272,257
Feasibility Study Funding	-	299,167
Sustainability Funding	6,290,472	-
Conference Registration	326,663	-
Donations	40,000	200
Fees	-	1,250
Investment Income	91,473	304,298
Total Revenue	<u>7,186,551</u>	<u>1,767,372</u>
EXPENDITURES/EXPENSES:		
Program Expenses		
SDR Conference	393,238	-
Technical Assistance/Capacity Building	36,149	467,735
SHB Program Funding	92,221	78,027
Feasibility Study Funding	11,569	28,037
Program Expense	22,360,060	56,504,288
Evaluation Expense	2,720,109	3,049,693
Planning Expense	587,248	373,026
Total Program Expense	<u>26,200,594</u>	<u>60,500,806</u>
General and Administration	<u>1,336,150</u>	<u>1,089,271</u>
Total Expenditures/Expenses	<u>27,536,744</u>	<u>61,590,077</u>
Change in Fund Balance/Net Position	(20,350,193)	(59,822,705)
FUND BALANCE/NET POSITION		
Beginning of year	<u>30,754,951</u>	<u>90,577,656</u>
End of year	<u>\$ 10,404,758</u>	<u>\$ 30,754,951</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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, 2015 and 2014, there were 52 members (50 counties, one city and one JPA).

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, 2015 AND 2014

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 Position 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 Position presents information on all of CalMHSA's assets and liabilities, with the difference between the two presented as net position. Net Position is reported as one of three categories: invested in capital assets, net of related debt; restricted or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position 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, 2015 AND 2014

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. The term of this contract was April 15, 2010 through June 30, 2014.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

With the end of the four-year period nearing, the CalMHSA Board of Directors adopted a two-phase planning strategy for continuing the investment in statewide PEI efforts. In April 2014, the CalMHSA Board approved a Phase I Funding Plan to sustain the existing Statewide PEI projects through June 30, 2015. Phase I continues some of the current CalMHSA PEI Statewide Projects existing funds and a winding down of others pursuant to the guidance of stakeholders and Board. Phase I is recognized as a short-term sustainability solution for the purpose of providing program partners with additional time to successfully complete their activities and deliverables, and to reduce the risk of any adverse consequences of discontinuing activities (e.g., the ability to measure long-term impact).

Additionally, in August 2014, the CalMHSA Board approved a Phase II Funding Plan for purpose of continuing work related to PEI projects through June 30, 2017. Funding for Phase I and Phase II is derived from current county members committing a range of 1% to 7% funding from their local PEI funds for the next three fiscal years, in addition to CalMHSA seeking other funding to include state and federal resources.

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

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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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.

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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2015 and 2014 consisted of the following:

	2015	2014
Cash in banks	\$ 245,647	\$ 344,039
Money Market Account	1,630	110,839
LAIF	13,973,387	420,344
	<u>\$ 14,220,664</u>	<u>\$ 875,222</u>

Cash in Bank

As of June 30, 2015 and 2014, CalMHSA's balances per the bank of \$436,915 and \$506,716 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, 2015, CalMHSA's had cash in a money fund managed by Morgan Stanley Smith Barney LLC.

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 maturity of 239 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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

3. RECEIVABLES

The receivables balance represents funding revenue for programs that was billed prior to year end, but funds were not received until after year end. Due to the nature of the receivables and the likelihood of collection, no provision for uncollectible accounts has been made.

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 eight contracts to twenty eight program partners. See www.calmhsa.org for a complete list of the statewide PEI approved contractors.

5. SUBSEQUENT EVENTS

CalMHSA's management evaluated its 2015 financial statements for subsequent events through December 4, 2015, 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, 2015

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:			
SHB Funding	\$ 450,000	\$ 437,943	\$ (12,057)
Sustainability Funding	12,800,000	6,290,472	(6,509,528)
Conference Registration	-	326,663	326,663
Donations	-	40,000	40,000
Feasibility Study Funding	-	(1,763)	(1,763)
Investment Income	95,000	91,473	(3,527)
Total Revenue	<u>13,345,000</u>	<u>7,184,788</u>	<u>(6,160,212)</u>
EXPENDITURES/EXPENSES:			
Program Expenses			
SDR Conference	-	393,238	(393,238)
Technical Assistance/Capacity Building	-	36,149	(36,149)
SHB Program Funding	450,080	92,221	357,859
Feasibility Study Funding	248,703	9,806	238,897
Program Expenses	40,349,390	22,360,060	17,989,330
Evaluation Expense	2,326,733	2,720,109	(393,376)
Planning Expense	-	587,248	(587,248)
Total Project Expense	<u>43,374,906</u>	<u>26,198,831</u>	<u>17,176,075</u>
General and Administration	<u>3,155,583</u>	<u>1,336,150</u>	<u>1,819,433</u>
Total Expenditures/Expenses	<u>46,530,489</u>	<u>27,534,981</u>	<u>18,995,508</u>
Change in Fund Balance/Net Position	(33,185,489)	(20,350,193)	(25,155,720)
FUND BALANCE/NET POSITION			
Beginning of year	<u>30,754,951</u>	<u>30,754,951</u>	<u>-</u>
End of year	<u>\$ (2,430,538)</u>	<u>\$ 10,404,758</u>	<u>\$ (25,155,720)</u>

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, 2014

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:			
Technical Assistance/Capacity Building	\$ 473,000	\$ 668,600	\$ 195,600
PEI Statewide Programs - Planning	3,750	11,080	7,330
PEI Statewide - Program Implementation	71,250	210,520	139,270
SHB Funding	-	272,257	272,257
Feasibility Study Funding	-	299,167	299,167
Fees	-	1,250	1,250
Investment Income	642,000	304,498	(337,502)
Total Revenue	<u>1,190,000</u>	<u>1,767,372</u>	<u>577,372</u>
EXPENDITURES/EXPENSES:			
Program Expenses			
Technical Assistance/Capacity Building	515,036	467,735	47,301
WET Program Funding	147,720	-	147,720
SHB Program Funding	-	78,027	(78,027)
Feasibility Study Funding	-	28,037	(28,037)
PEI Statewide Programs	50,062,065	56,504,288	(6,442,223)
Evaluation Expense	4,456,413	3,049,693	1,406,720
Planning Expense	800,000	373,026	426,974
Total Project Expense	<u>55,981,234</u>	<u>60,500,806</u>	<u>(4,519,572)</u>
General and Administration	<u>2,007,500</u>	<u>1,089,271</u>	<u>918,229</u>
Total Expenditures/Expenses	<u>57,988,734</u>	<u>61,590,077</u>	<u>(3,601,343)</u>
Change in Fund Balance/Net Position	(56,798,734)	(59,822,705)	4,178,715
FUND BALANCE/NET POSITION			
Beginning of year	<u>90,577,656</u>	<u>90,577,656</u>	<u>-</u>
End of year	<u>\$ 33,778,922</u>	<u>\$ 30,754,951</u>	<u>\$ 4,178,715</u>

OTHER AUDITOR'S REPORT



James Marta & Company LLP
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***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Mental Health Services Authority
Rancho Cordova, 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 the governmental activities and the major fund, and the aggregate remaining information of California Mental Health Services Authority, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise California Mental Health Services Authority's basic financial statements, and have issued our report thereon dated December 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered California Mental Health Services Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the California Mental Health Services Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of California Mental Health Services Authority'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 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.

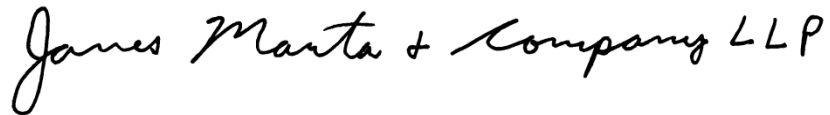
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given 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 California Mental Health Services Authority'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*.

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 entity'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 entity's internal control and compliance. This report is intended solely for the information and use of Management and the Board of Directors 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 LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 4, 2015