

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY (“CalMHSA”)

FINANCIAL STATEMENTS

June 30, 2023

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY (“CalMHSA”)
Sacramento, California

June 30, 2023

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT DISCUSSION AND ANALYSIS.....	4
FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION	11
STATEMENT OF ACTIVITIES	12
BALANCE SHEET – GOVERNMENTAL FUND	13
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUND	15
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES.....	16
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS.....	17
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	18
FIDUCIARY FUNDS	
NOTES TO FINANCIAL STATEMENTS	19
REQUIRED SUPPLEMENTARY INFORMATION:	
BUDGETARY COMPARISON SCHEDULE GENERAL FUND	31
SUPPLEMENTARY INFORMATION:	
SCHEDULE OF REVENUE AND EXPENSES REPORT	32
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	39
SCHEDULE OF FINDINGS AND RESPONSES.....	41

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Mental Health Services Authority
Sacramento, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the California Mental Health Services Authority (CALMHSA), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the California Mental Health Services Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the California Mental Health Services Authority, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the California Mental Health Services Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

As discussed in Note 1 to the financial statements, during the year ended June 30, 2023, California Mental Health Services Authority adopted new accounting guidance, GASB Statement No. 96, Subscription-Based Information Technology Arrangements. There was no impact to net position as of July 1, 2022 as a result of adoption.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the California Mental Health Services Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 California Mental Health Services Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the California Mental Health Services Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Budgetary Comparison Schedule General Fund as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 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.

(Continued)

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the California Mental Health Services Authority's basic financial statements. The Schedule of Annual Revenue and Expenses Reports (RER) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Annual Revenue and Expenses Reports (RER) are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2024 on our consideration of the California Mental Health Services Authority'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 solely 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 effectiveness of the California Mental Health Services Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the California Mental Health Services Authority's internal control over financial reporting and compliance.



Crowe LLP

Costa Mesa, California
November 1, 2024

Management Discussion and Analysis

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 CalMHSA for the fiscal year ended June 30, 2023. 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 of Authority (JPA) to jointly develop, fund and implement mental/behavioral health projects and educational programs at the state, regional and local levels.

CalMHSA is headed by a separate Board of Directors comprised of all member counties and an Executive Committee comprised of officers and statewide regional representatives. It previously employed an administrative firm to manage the JPA, but effective November 1, 2020, CalMHSA began independently operating with its own staff and management. CalMHSA operates within the statutes governing JPA entities and complies with the Brown Act open meeting requirements.

As of June 30, 2023, 58 members (56 counties, one city and one JPA) are working together to develop and fund programs that include, but are not limited to prevention and early intervention; state hospital beds and similar related services; state government administration of mental health services, programs or activities including but not limited to the Drug Medi-Cal Treatment Program; managed mental health care programs; delivery of specialty mental health services; operation of program risk pools; provision of any other similar or related fiscal or administrative services that would be of value to CalMHSA members, such as group purchasing, contract management, research and development, data management, maintenance of a research depository, technical assistance, capacity building, education and training, research, and development of policy requests from the California State Association of Counties or its affiliates on a statewide, regional or local level.

For fiscal year 2022-23, CalMHSA’s Board of Directors approved a variety of new programs and services to assist counties with the delivery of behavioral health services within their communities, including but not limited to:

- Support for specialty mental health and Drug Medi-Cal Managed Care Plans, to allow CalMHSA to assist counties with provider management credentialing, fiscal optimization and budgeting as it relates to managed care.
- Exploration of contracts with behavioral health facilities and/or providers for services to individuals throughout the lifespan, as needed across California’s 56 counties.
- Development of a remote clinical supervision program to be funded by participating counties.

CalMHSA Program Highlights, FY 2022-23

Prevention and Early Intervention (PEI) Projects

Key highlights of FY 2022-23 included suicide and substance use prevention toolkit and resources, a specialized mental health awareness toolkit, the May 2023 Mental Health Matters Month toolkit and resources, specialized support content for priority populations

Health IT Program

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY (“CalMHSA”)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2023

Key highlights for FY 2022-23 included developing a collaborative effort encompassing 23 counties to implement a semi-statewide Electronic Health Record (EHR) system.

Advancing Care Programs

Key highlights of FY 2022-23 included the CalHOPE Support Program, suicide prevention hotline/regional suicide prevention hotlines, a multi-county full-service partnership innovation project, early psychosis intervention, the Help@Hand program, a Community Mental Health Equity Project, and targeted research projects.

Workforce Programs

Key highlights for FY 2022-23 included an employee loan forgiveness for counties, leading the statewide Certified Medi-Cal Peer Support Specialist program, a masters-level educational partnership, remote clinical supervision for licensure, and a partnership that assists counties with staffing needs.

Managed Care Programs

Key highlights of FY 2022-23 included managing the Presumptive Transfer Portal for foster youth; concurrent review and authorization for psychiatric inpatient hospital and psychiatric health facility services, and a State Hospitals program to mitigate overcrowding at the Department of State Hospitals.

California Advancing & Innovating Medi-Cal (CalAIM) Support for Counties

Key highlights of FY 2022-23 included supporting counties’ implementation of CalAIM within behavioral health and providing technical assistance and subject matter expertise to help counties achieve select Behavioral Health Quality Improvement Program deliverables.

Financial Highlights for the Fiscal Year Ended June 30, 2023

Revenues	\$102.7 million	Revenues grew by \$2.2 million from the prior year. It’s largely a result of revenue increase by EHR of \$33 million, CalHOPE of \$16 million, netted by decrease of revenues by WET, COVID/Fire and other programs.
Expenses	\$99.2 million	Expenses grew by \$23.7 million over the prior year. CalHope of \$14.5 million and general and administrative of \$9.2 million.
Assets	\$124.0 million	Assets increased by \$18.1 million over the prior year. Current assets increased by \$14.6 million, while non-current assets increased by \$3.5 million. Cash and cash equivalents decreased by \$0.4 million.
Liabilities	\$33.9 million	Liabilities increased by \$14.6 million over the prior year, mostly due to the increase of the program related current liabilities by \$12.7 million.
Net Position	\$90.1 million	Net Position increased by \$3.5 million over the prior year, due to an increase of unrestricted assets.

(Continued)

Overview of Financial Statements

The Authority's basic financial statements consist of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements and (3) Notes to the Basic Financial Statements.

Government-wide Financial Statements

The government-wide financial statements found on pages 17 and 18 are designed to give readers a broad overview of the Authority's financial position. These include all of the Authority's assets and liabilities, revenues, and expenses. The accounting basis is full accrual (similar to private sector companies) where revenues are recorded as earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows.

The Statement of Net Position presents all of the Authority's assets, liabilities with the difference reported as net position (or equity in the private sector). Over time, increases or decreases in net position serve as useful indicator of whether the financial position of the Authority is improving or declining.

The Statement of Activities presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Fund Financial Statements

The fund financial statements can be found on pages 19 through 21 of this report. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

Differences between the two sets of financial statements are normally determined by the complexity of the reporting agency and usually revolve around different treatments for capital assets and debt issuance and repayment. Since the Authority has no capital assets and no long-term debts, the Government-wide and the Fund Financial Statements are similar.

Governmental Funds: The focus of the Authority's governmental fund is to provide information on the sources, uses and balances of spendable resources. Such information is useful in assessing the Authority's short-term financial requirements. The type of governmental fund reported by the Authority includes the General Fund.

Fiduciary Funds: The Authority's Fiduciary funds consist of two Custodial funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Authority's own programs.

Notes to the Basic Financial Statements

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 (“CalMHSA”)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2023

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 2023 and 2022, and a look ahead at economic conditions that may affect CalMHSA in the future.

I. Statement of Net Position

The following table shows a summary of CALMHSA’s government-wide statements of net position for last two years.

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Assets		
Current and other assets	\$ 118,798,158	\$ 104,236,819
Noncurrent Assets	5,173,800	1,621,039
Total Assets	<u>123,971,958</u>	<u>105,857,858</u>
Liabilities		
Current Liabilities	30,374,818	17,641,948
Noncurrent Liabilities	3,539,127	1,673,821
Total Liabilities	<u>33,913,945</u>	<u>19,315,769</u>
Net Position		
Net Investment in Capital Assets	1,273,417	41,959
Restricted	15,404,834	78,974,730
Unrestricted	73,379,762	7,525,400
Total Net Position	<u>90,058,013</u>	<u>86,542,089</u>
 Total Liabilities and Net Position	 <u>\$ 123,971,958</u>	 <u>\$ 105,857,858</u>

Total assets increased by \$14.6 million from \$105.9 million on June 30, 2022 to \$123.97 million as of June 30, 2023. Cash balance as of June 30, 2023 decreased by \$0.4 million compared to the previous year due mostly to decrease of money market account balance. Year-end cash, totaled \$89.2 million of which \$26.4 million is held in the Local Agency’s Investment Fund (LAIF) - an external investment pool managed by the State Treasurer’s Office, and \$69.6 million are held by California Bank & Trust and California Bank of Commerce. Total liabilities increased by \$14.6 million from \$19.3 million as of June 30, 2022, to \$33.9 million at June 30, 2023. The increase is due to increases in the Accounts Payable activity related to the Electronic Health Record (EHR) program. Total Net position reached record \$90.0 million as of June 30, 2023. Unrestricted net position reached record \$15.4 million – a net increase of \$7.8 million compared to the previous fiscal year.

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CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY ("CalMHSA")
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2023

II. Statement of Activities

The following table shows a summary of CALMHSA's government-wide statements of activities for the last two years.

	Governmental Activities	
	2023	2022
Revenues:	\$ 102,685,504	\$ 100,462,394
Expenses:		
Program Expenses	82,900,964	68,399,972
General and Administration	16,268,616	7,087,977
Total Expenses	99,169,580	75,487,949
Change in Net Position	3,515,924	24,974,445
Net Position - Prior Year:	86,542,089	61,567,644
Net Position - Current Year:	\$ 90,058,013	\$ 86,542,089

For the fiscal year ended, June 30, 2023, total revenues increased by \$2.2 million or 2.2% compared to the previous fiscal year. The increase is a result of funding for EHR, CalHope, BHIQIP programs.

Expenses increased by \$23.7 million over the prior fiscal year. The increase is directly related to LA PEI, Help@Hand, and CalHope programs.

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CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY (“CalMHSA”)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2023

Financial Analysis of Fund Statements

The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The following table details the revenues and expenditures in the governmental fund for the past two fiscal years:

	General Fund	
	2023	2022
Revenues:	\$ 106,122,699	\$ 99,398,283
Expenses:		
General Government	101,921,705	77,025,465
Principal and Interest	839,255	-
Total expenses	102,760,960	77,025,465
Excess of revenues over expenditures	3,361,739	22,372,818
Other financing uses/sources		
SBITA financing	2,247,030	-
Lease financing	-	1,690,645
Change in Fund Balance	5,608,769	24,063,463
Fund Balance - Prior Year:	80,681,829	56,618,366
Fund Balance - Current Year:	\$ 86,290,598	\$ 80,681,829

Governmental Funds

The focus of the Authority's governmental fund is to provide information on the sources, uses and balances of spendable resources. Such information is useful in assessing the Authority's short-term financial requirements. The type of governmental fund reported by the Authority includes the General Fund.

The General Fund is the only operating fund for the Authority. At the end of 2023 fiscal year, the General Fund's total fund balance reached \$86.3 million, or 7% increase compared to the prior fiscal year.

Revenues for the Authority consist primarily of dues from 58 members comprised of 56 counties, one city, and one JPA. Revenues during the year increased to a new high of \$102.7 million in FY22-23 compared to \$100.5 million in the previous fiscal year. The increase of \$2.2 million or 2.23% is due to additional funds received for Electronic Health Record (EHR) and Peer Certification programs. Total expenses during FY22-23 increased to \$99.2 million compared to \$75.5 million in the previous fiscal year. The increase of \$23.7 million is due to the large program expenses for Electronic Health Record (EHR) and Peer Certification programs.

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

CALMHSA's total investment in capital assets is \$1,273,417 as reported under the accrual basis of accounting. In FY 2023 capital assets decreased by \$3,552,760 which primarily due to the development of the SmartCare Portal. CALMHSA's capital assets are disclosed in Note 5 to the financial statements.

For the past decade, California has steadily grown a statewide movement toward prevention and early intervention underwritten by MHSAs funds. CalMHSA was created by the counties in 2009, to administer MHSAs PEI projects on a statewide basis. Through the initial implementation and the second phase (Phase I: 2011-2015, Phase II: 2015-2017, and Phase III: 2018-2020) of the CalMHSA Statewide PEI Project, CalMHSA developed and implemented population-based strategies aligned with Welfare and Institutions Code Section 5840. The PEI Project continues to be endorsed by counties but funding with local MHSAs funds continues to be challenging.

Given these concerns, some counties may have declined or reduced their funding level to the PEI Project because of lack of local stakeholder support for statewide initiatives that don't directly apply to specific local needs. CalMHSA wants to facilitate continued county investment in the PEI Project by allowing more flexibility for local activities, referred to as “county specific projects.” These county-specific projects would be built from programs that are currently implemented under the Statewide PEI Project, such as Each Mind Matters, Know the Signs, Walk In Our Shoes, Directing Change, Take Action or others.

The COVID-19 pandemic impacted various programs. Given much of the PEI Program's work is out engaging the community, funds were not expended as previously planned. In other programs, Members expedited launching resources to their communities due to need, therefore work on these programs increased.

Budgetary Highlights

CalMHSA's annual budget approval process begins with a preliminary budget which is revised to reflect new programs or closing programs and presented to the Finance Committee.

CalMHSA adopts an annual budget after a preliminary budget is approved by the Finance Committee and the Finance Committee chair presents the proposed budget to the Board. During the year, if an amendment to the budget is required the amended budget is presented to the Board for approval. A budgetary comparison schedule (page 31) has been provided to demonstrate compliance with this budget.

During the fiscal year, actual revenues were lower than budgetary estimated revenues by about \$21.1 million. The decrease in revenues is primarily due to new grant program funding.

Request for Information

We hope that the preceding information has provided you with a general overview of CalMHSA's overall financial status. For questions or comments concerning the information contained in this report, please contact a representative at 1610 Arden Way Ste 175 Sacramento CA 95815.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF NET POSITION
June 30, 2023

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 89,162,242
Prepaid expenses	10,072,594
Accounts receivable	19,539,363
Other assets	23,959
Total current assets	118,798,158
Noncurrent assets:	
Capital assets, net of depreciation	1,273,417
Lease right-to-use asset, net of amortization	1,319,505
Right-to-use subscription asset, net of amortization	2,580,878
Total noncurrent assets	5,173,800
Total assets	\$ 123,971,958
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 25,234,527
Accrued expenses	476,372
Current portion of subscription liability	316,961
Current portion of long-term lease liabilities	249,209
Unearned revenue	4,097,749
Total current liabilities	30,374,818
Noncurrent liabilities:	
Accrued compensated absences	390,687
Long-term subscription liability	1,930,069
Long-term lease liabilities	1,218,371
Total noncurrent liabilities	3,539,127
Total liabilities	33,913,945
NET POSITION	
Net Investment in Capital Assets	1,459,190
Restricted	73,379,762
Unrestricted	15,219,061
Total net position	90,058,013
Total liabilities and net position	\$ 123,971,958

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED June 30, 2023

Functions/programs	Expenses	Program Revenues		Net (expenses) Revenues and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Change in Activities
Governmental Activities:				
General Government	\$ 99,169,580	\$ 9,380,021	\$ 92,769,279	\$ 2,979,720
Total governmental activities	<u>\$ 99,169,580</u>	<u>\$ 9,380,021</u>	<u>\$ 92,769,279</u>	<u>2,979,720</u>
General Revenues:				
Investment Earnings				339,246
Miscellaneous Income				<u>196,958</u>
Total general revenues				<u>536,204</u>
Change in net position				3,515,924
Net position – beginning				<u>86,542,089</u>
Net position – ending				<u>\$ 90,058,013</u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2023

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 89,162,242
Prepaid expenses	10,072,594
Accounts receivable	19,539,363
Other assets	<u>23,959</u>
 Total assets	 <u>\$ 118,798,158</u>
LIABILITIES	
Accounts payable	\$ 25,234,528
Accrued expenses	476,372
Unearned revenue	<u>4,097,749</u>
Total liabilities	<u>29,808,649</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	<u>2,698,911</u>
Total deferred inflows of resources	<u>2,698,911</u>
FUND BALANCE	
Nonspendable	10,072,594
Restricted	72,110,361
Unassigned	<u>4,107,643</u>
Total fund balance	<u>86,290,598</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u>\$ 118,798,158</u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2023

Total fund balances – per governmental fund balance sheet \$ 86,290,598

Amounts reported for governmental activities in the statement of net position are different because:

Revenues recognized for governmental activities that are not available in the current period and, therefore, are not reported in the funds. 2,698,911

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Intangible asset - SmartCare Portal	1,238,083
Capital assets at historical cost	46,374
Accumulated depreciation	<u>(11,040)</u>
Net capital assets	1,273,417

Right-to-use leased assets used in governmental activities are not financial resources and therefore not reported in the funds.

Lease right-to-use assets at historical cost	1,773,761
Accumulated amortization	<u>(454,256)</u>
Net right to use leased assets	1,319,505

Right-to-use subscription assets used in governmental activities are not financial resources and therefore not reported in the funds.

Right-to-use subscription assets at historical cost	2,767,898
Accumulated amortization	<u>(187,020)</u>
Net right-to-use subscription assets	2,580,878

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:

Lease liability	(1,467,580)
Subscription liability	(2,247,030)
Compensated absences payable	<u>(390,686)</u>
Total Liabilities not due and payable in the current period	<u>(4,105,296)</u>

Net position of governmental activities \$ 90,058,013

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED June 30, 2023

	General Fund
Revenues	
Intergovernmental	\$ 96,236,578
Charges for Services	9,349,917
Investment Earnings	339,246
Miscellaneous	196,958
Total revenues	106,122,699
 Expenditures	
Current	
General Government	101,921,705
Debt Service	
Principal Retirement	609,345
Interest	229,910
Total expenditures	102,760,960
 Excess of revenues over expenditures	 3,361,739
 Other Financing Uses/Sources	
SBITA Financing	2,247,030
 Net change in fund balance	 5,608,769
 Fund balance – beginning	 80,681,829
 Fund balance – ending	 \$ 86,290,598

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED June 30, 2023

Net change in fund balance of the governmental fund	\$ 5,608,769
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Net changes in unavailable revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the fund</p>	(3,437,195)
<p>Assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	
SBITA expenditures	2,767,898
SBITA amortization expense	(187,020)
Intangible asset - SmartCare Portal	1,238,083
Lease amortization expense	(259,575)
Depreciation expense	<u>(6,625)</u>
Assets - Net	<u>3,552,761</u>
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the fund</p>	
Change in compensated absences	(184,446)
<p>Repayment of lease obligations are reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position</p>	223,065
<p>The incurrment of lease liabilities provides current financial resources to governmental funds but does not have any effect on net position.</p>	
Other Financing Sources: SBITA	<u>(2,247,030)</u>
Change in net position of governmental activities	<u>\$ 3,515,924</u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2023

	<u>Custodial Fund</u>
ASSETS	
Cash and cash equivalents	\$ 6,892,727
Accounts Receivable	<u>32,589</u>
Total assets	6,925,316
 NET POSITION	
Restricted for:	
Individuals, organizations, and other governments	<u>6,925,316</u>
 Total net position	<u><u>\$ 6,925,316</u></u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED June 30, 2023

	<u>Custodial Funds</u>
ADDITIONS	
Contributions:	
Members	\$ 3,849,346
Total contributions	3,849,346
Investment earnings:	
Interest, dividends, and other	89,530
Total investment earnings	89,530
Total additions	3,938,876
DEDUCTIONS	
Benefits paid to participants or beneficiaries	6,721
Refunds and transfers to other systems	759,190
Total deductions	765,911
Net increase (decrease) in fiduciary net position	3,172,965
Net position – beginning	3,752,351
Net position – ending	\$ 6,925,316

See Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and programs. 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, 2023, there were 58 members (56 counties, one city and one JPA).

Admission: To be accepted for membership in CalMHSA, counties must complete an application form and submit the required one-time 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 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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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: net investment in capital assets; restricted or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that are otherwise restricted. All fiduciary activities are reported only in the fund financial statements.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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, the General Fund.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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. For this purpose, CalMHSA considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

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.

FUND ACCOUNTING

The accounts of CalMHSA are organized on the basis of funds, 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, deferred inflows of resources, 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 and one fiduciary 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support CalMHSA's programs.

Custodial Fund: Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The Custodial Fund includes AB1299, Alameda Loan Forgiveness, and CCBHS loan Forgiveness.

BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

The government-wide and fiduciary fund 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.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they have been earned and they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or when their receipt occurs within 90 days after the end of the fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recognized later based on specific accounting rules, generally when payment is due.

BUDGETARY BASIS OF ACCOUNTING

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. CalMHSA presents a comparison of annual budget to actual results.

The draft budget is presented to and accepted by the Finance Committee. Prior to July 1, the Chair to the Finance Committee presents the recommended budget to the Board of Directors for approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

CalMHSA does not use encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS

CalMHSA developed a secure portal for its AB1299 program in collaboration with the California Behavioral Health Directors Association (CBHDA) to facilitate presumptive transfers for counties. The portal became operational in January 2020. CalMHSA capitalized prior development expenses related to this portal, bringing it fully into operation by FY 2022-2023. The details on capitalized assets can be found in Note 5 of this report.

COMPENSATED ABSENCES

CalMHSA's Paid Time Off (PTO) policy allows employees to accumulate earned but unused benefits, which are payable upon separation from service. The associated liability is recognized in the government-wide financial statements as it is incurred. In governmental funds, however, the liability is only recorded when it has matured due to employee resignations or retirements. The liability for compensated absences includes applicable salary-related benefits. Sick leave lapses upon separation, with no monetary obligation. Additional details are available in Note 6.

DEFINED CONTRIBUTION PLANS

CalMHSA offers retirement benefits through a 401(a) defined contribution plan with employer contributions and a 457(b) plan that allows employees to make voluntary salary deferrals. Both plans are managed by third-party administrators, with the investment risk borne by the employees. As defined contribution plans, CalMHSA's obligations are limited to annual contributions, and no long-term liability exists for the organization beyond these contributions. Due to accumulated large balances the detailed report is presented in Note 9.

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. Local Agency Investment Fund (LAIF) and Money Market Accounts are presented as cash as they are available for immediate withdrawal or deposit at any time without prior notice or penalty and there is minimal risk of loss of principal.

GRANT ENTITLEMENT

CalMHSA is a participant in a number of federal and state-assisted programs. These programs may be subject to future compliance audits by the grantors. Accordingly, the Authority's compliance with applicable program requirements is not completely established. The amount, if any, of expenditures that may be disallowed by the grantors cannot be determined at this time. The Authority believes it has adequately provided for potential liabilities, if any, which may arise from the grantors' audits.

DEFERRED INFLOWS

In addition to liabilities, the balance sheet includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: charges for services and intergovernmental. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NET POSITION

The government-wide and fiduciary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted net position** - consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Sometimes CalMHSA will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and fiduciary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the CALMHSA's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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. Nonspendable balance of \$10,072,594 largely represents costs incurred during the implementation stage of the Subscription Based Information Technology Arrangements (SBITA).

Restricted Fund Balance reflects amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation. Restricted fund balance of \$72,110,361 represents various contributing member counties' balances.

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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY (“CalMHSA”)
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The unassigned fund balance was \$4,107,643 as of June 30, 2023.

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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2023, consisted of the following:

Cash on hand	\$ 29,910,942
Money Market Account	32,835,867
LAIF	26,415,433
	<hr/>
	\$ 89,162,242
Fiduciary fund cash on hand	6,892,727
	<hr/>
	<u>\$ 96,054,969</u>

Cash in Bank

As of June 30, 2023, CalMHSA’s cash balance per the bank of \$29,252,068 (excluding Money Market and LAIF accounts) is 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 or insured under FDIC rules.

Custodial Account

As of June 30, 2023, CalMHSA had \$6,892,727 in the special custodial cash account under AB 1299 and loan forgiveness programs.

Local Agency Investment Fund

California Mental Health Services Authority 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 the California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurers Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the Authority’s investment in this pool is reported in the accompanying financial statements based upon the CalMHSA’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Local Agency Investment Fund (Continued)

The monies held in the pooled investment funds are not subject to categorization by risk category. 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.

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 goals of safety, liquidity, and yield are not jeopardized. Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goals of safety, liquidity, and yield are not jeopardized. Total amount held under LAIF is \$26,415,433 as of June 30, 2023.

GASB Statement No. 31

GASB Statement No. 31 requires CalMHSA to adjust the carrying amount of its investment portfolio to reflect the change in fair or market values. Interest revenue is increased or decreased in relation to this adjustment of unrealized gain or loss. Net interest income in the funds reflects this positive or negative market value adjustment.

NOTE 3 – RECEIVABLES

The receivables balance represents funding revenue for programs that were 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. Receivables for FY 2022-2023 total \$19,539,363. As of June 30, 2023, there are no receivables that are not expected to be collected within one year.

NOTE 4 – UNEARNED REVENUE

Unearned revenue in the governmental funds represents restricted amounts received for which revenue recognition criteria have not been met because such amounts have not yet been earned. On June 30, 2023 there was \$4,097,749 unearned revenue for grants/funds received not yet spent.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY ("CalMHSA")
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2023, was as follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets, being depreciated/amortized				
Intangible Asset - SmartCare Portal	\$ -	\$ 1,238,083	\$ -	\$ 1,238,083
AB 1299 Portal	581,501	-	-	581,501
Furniture and Equipment	46,374	-	-	46,374
Total capital assets, being depreciated/amortized	<u>627,875</u>	<u>1,238,083</u>	<u>-</u>	<u>1,865,958</u>
Less accumulated depreciation/amortization for:				
Intangible Asset - SmartCare Portal	-	-	-	-
AB 1299 Portal	(581,501)	-	-	(581,501)
Furniture and Equipment	(4,414)	(6,625)	-	(11,040)
Total accumulated depreciation/amortization	<u>(585,915)</u>	<u>(6,625)</u>	<u>-</u>	<u>(592,541)</u>
Capital assets, net	<u>41,960</u>	<u>1,231,458</u>	<u>-</u>	<u>1,273,417</u>
Lease right-to-use asset, being amortized				
Lease right-to-use asset	<u>1,773,761</u>	<u>-</u>	<u>-</u>	<u>1,773,761</u>
Total Lease right-to-use asset, being amortized	<u>1,773,761</u>	<u>-</u>	<u>-</u>	<u>1,773,761</u>
Less accumulated amortization for:				
Lease right-to-use asset	<u>(194,681)</u>	<u>(259,575)</u>	<u>-</u>	<u>(454,256)</u>
Total accumulated amortization	<u>(194,681)</u>	<u>(259,575)</u>	<u>-</u>	<u>(454,256)</u>
Lease right-to-use asset, net	<u>1,579,080</u>	<u>(259,575)</u>	<u>-</u>	<u>1,319,505</u>
Subscription right-to-use asset, being amortized				
Subscription right-to-use asset	<u>-</u>	<u>2,767,898</u>	<u>-</u>	<u>2,767,898</u>
Total Subscription right-to-use asset, being amortized	<u>-</u>	<u>2,767,898</u>	<u>-</u>	<u>2,767,898</u>
Less accumulated amortization for:				
Subscription right-to-use asset	<u>-</u>	<u>(187,020)</u>	<u>-</u>	<u>(187,020)</u>
Total accumulated amortization	<u>-</u>	<u>(187,020)</u>	<u>-</u>	<u>(187,020)</u>
Subscription right-to-use asset, net	<u>-</u>	<u>2,580,878</u>	<u>-</u>	<u>2,580,878</u>
Total capital assets, net	<u>\$ 1,621,040</u>	<u>\$ 3,552,761</u>	<u>\$ -</u>	<u>\$ 5,173,800</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY (“CalMHSA”)
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

NOTE 6 –NONCURRENT LIABILITIES

	Balance July 1, 2022	Adjustments/ Additions	Retirements	Balance June 30, 2023	Due Within One Year
Governmental activities					
Compensated absences	\$ 206,241	\$ 565,005	\$ (380,559)	\$ 390,687	\$ -
Right-to-use subscription liabilities	-	2,633,309	(386,279)	2,247,030	316,961
Right-to-use lease liabilities	1,690,645	-	(223,065)	1,467,580	249,209
Total Governmental Activities	<u>\$ 1,896,886</u>	<u>\$ 3,198,314</u>	<u>\$ (989,903)</u>	<u>\$ 4,105,297</u>	<u>\$ 566,170</u>

The noncurrent liabilities for governmental activities are typically paid from the fund where the liability originally occurred. This approach ensures that the financial responsibility for these obligations is accurately reflected in the same fund, allowing for proper accounting and clear reporting in the government-wide financial statements

NOTE 7 – GASB 87 LEASES

In compliance with GASB Statement No. 87, state and local governments are required to recognize leases on their financial statements. This includes the recognition of both a lease liability and a right-to-use asset, impacting the balance sheet, income statement, and accompanying notes. These changes enhance transparency regarding lease obligations.

The impact of minimum lease obligation to CalMHSA financial statements as of June 30, 2023, was \$1,467,580. The future minimum lease obligation breakdown and the net present value of these minimum lease payments as of June 30, 2023, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 249,209	\$ 50,627	\$ 299,836
2025	267,169	41,661	308,830
2026	286,424	31,671	318,095
2027	307,067	20,571	327,638
2028	329,198	8,270	337,468
2029-thereafter	<u>28,513</u>	<u>95</u>	<u>28,608</u>
Totals	<u>\$ 1,467,580</u>	<u>\$ 152,895</u>	<u>\$ 1,620,475</u>

NOTE 8 – GASB 96 SUBSCRIPTION-BASED IT ARRANGEMENTS (SBITAs)

CalMHSA adopted GASB Statement No. 96, related to Subscription-Based Information Technology Arrangements (SBITAs), for the fiscal year ending June 30, 2023. The objective of this statement is to improve the relevance and consistency of reporting on government subscription activities. It establishes that subscriptions are considered financing of the right to use an underlying asset. Consequently, CalMHSA recognized a subscription liability and an intangible right-to-use subscription asset.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY (“CalMHSA”)
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

NOTE 8 – GASB 96 SUBSCRIPTION-BASED IT ARRANGEMENTS (SBITAs) (Continued)

Under GASB Statement No. 96, CalMHSA distinguishes between subscription-based information technology arrangements with and without software licenses. For arrangements containing a software license, a right-to-use subscription asset and corresponding liability are recognized, with expenses allocated over the subscription term. The requirements, effective for the current reporting period, enhance transparency and consistency in financial reporting for these arrangements. In alignment with governmental accounting principles, SBITA assets used in governmental activities are not recognized as financial resources and, therefore, are not reported within governmental funds. Specifically, the Electronic Health Record (EHR) system, categorized as a SBITA asset, is recorded at its historical cost of \$2,767,898. After factoring in accumulated amortization totaling \$187,020, the net value of the EHR asset is \$2,580,878.

The future minimum SBITA obligation and the net present value of these minimum SBITA payments as of June 30, 2023, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 316,961	\$ 122,867	\$ 439,828
2025	347,330	105,693	453,023
2026	380,610	86,004	466,614
2027	417,078	63,534	480,612
2028	457,041	37,990	495,031
2029-thereafter	328,010	8,546	336,556
Totals	<u>\$ 2,247,030</u>	<u>\$ 424,634</u>	<u>\$ 2,671,664</u>

In accordance with GASB Statement No. 96, CalMHSA recognizes a Subscription-Based Information Technology Arrangement (SBITA) liability related to the semi-state EHR program. This liability reflects the future payments required for the right to use vendor's IT services over the contract period of seven years. The liability is measured as the present value of subscription payments, including fixed and certain variable payments, due under the arrangement. As of the subscription “go live” date, February 1, 2023, CalMHSA recorded a subscription liability of \$2,633,309, paired with a corresponding right-to-use asset.

CalMHSA also recorded a prepaid expense of \$9,690,606 during fiscal year 2023, which represents the portion of the participating member’s EHR Portal that was not publicly launched as of June 30, 2023. According to the terms of the contract, the subscription period does not commence until the point at which the participant’s EHR Portal is complete and ready for use. The prepaid expense recorded by CalMHSA represents costs incurred during the initial implementation stage and will be subsequently transferred to a SBITA Asset upon the remaining participating member agency’s EHR Portals being placed into service.

NOTE 9 –DEFINED CONTRIBUTION PLANS

California Mental Health Services Authority (CalMHSA) administers two defined contribution pension plans: the 401(a) Money Purchase Pension Plan and the 457(b) Public Deferred Compensation Plan, both of which comply with GASB standards. Plans are not defined benefits those are not subject of reporting under GASB 68 or GASB 73.

NOTE 9 – DEFINED CONTRIBUTION PLANS (Continued)

401(a) Money Purchase Pension Plan: The 401(a) Money Purchase Pension Plan requires the employer to contribute 10% of eligible employees' compensation annually. Contributions are fully vested upon deposit, ensuring immediate ownership by employees. Total employee contributions for the fiscal year 2023 were \$837,404. The plan permits one loan per participant, with Recordkeeper billing expenses amounting to \$22,306.73. No forfeitures were recorded, as all contributions are 100% vested, and there was no outstanding employer liability at year-end.

457(b) Public Deferred Compensation Plan: The 457(b) Public Deferred Compensation Plan allows employees to defer portions of their salary on a pre-tax or after-tax (Roth) basis, subject to IRS limits. The plan includes a special 3-Year Catch-Up provision for employees nearing retirement age and allows one loan per participant. Total employee contributions for the fiscal year 2023 were \$444,515. Recordkeeper billing expenses for this plan were \$14,662.60. As with the 401(a) plan, no forfeitures occurred, and there was no outstanding employer liability at year-end.

Trust Compliance: Both pension plans are managed in accordance with GASB requirements. The 401(a) plan assets are held in a GASB-compliant trust, ensuring that all assets are exclusively for the benefit of participants and their beneficiaries. The 457(b) plan is similarly protected under a compliant arrangement, ensuring that employee contributions are secure.

These disclosures ensure transparency and compliance with applicable financial reporting standards, providing clear and accurate information regarding CalMHSA's pension obligations.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY ("CalMHSA")
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED June 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
PEI Programs	\$ 33,710,539	\$ 33,710,539	\$ 23,778,796	\$ (9,931,743)
Innovation Projects	8,251,658	8,251,658	7,681,443	(570,215)
State Hospital Bed Program	1,009,440	1,009,440	2,388,824	1,379,384
Suicide Prevention Program	-	-	961,242	961,242
EHR	30,947,443	30,947,443	34,352,572	3,405,129
WET / Loan Forgiveness	1,199,423	1,199,423	8,957,695	7,758,272
AB 1299 - Admin Fee	250,000	100,000	-	(100,000)
Other Revenues	47,094,194	51,993,194	28,002,127	(23,991,067)
Total Revenues	<u>122,462,697</u>	<u>127,211,697</u>	<u>106,122,699</u>	<u>(21,088,998)</u>
Expenditures				
Program Expenses	101,082,636	101,082,636	80,689,370	(20,393,266)
General & Administrative	15,326,000	15,466,000	22,071,590	6,605,590
Total Expenditures	<u>116,408,636</u>	<u>116,548,636</u>	<u>102,760,960</u>	<u>(13,787,676)</u>
Excess of Revenues over Expenditures	<u>6,054,061</u>	<u>10,663,061</u>	<u>3,361,739</u>	<u>(7,301,322)</u>
Other Financing Sources				
SBITA financing	-	-	2,247,030	2,247,030
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>2,247,030</u>	<u>2,247,030</u>
Change in Fund Balance	6,054,061	10,663,061	5,608,769	(5,054,292)
Fund Balance, Beginning	69,369,640	69,369,640	80,681,829	11,312,189
Fund Balance, Ending	<u>\$ 75,423,701</u>	<u>\$ 80,032,701</u>	<u>\$ 86,290,598</u>	<u>\$ 6,257,897</u>

SUPPLEMENTARY INFORMATION

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE AND EXPENSE REPORT
FOR THE YEAR ENDED June 30, 2023

	Beginning Balance as of 07.01.22	Revenue	Expenditures and other adjustments	Ending Balance as of 06.30.23
Alameda County	\$ 359,828	\$ 1,237,084	\$ (980,620)	\$ 616,292
Alpine County	8,593	10,276	(10,211)	8,658
Amador County	65,614	25,574	(13,348)	77,840
Butte County	156,967	284,727	(387,400)	54,294
Butte County - HCAI Match	498,283	673,722	(224,091)	947,914
Calaveras County	25,341	3,370	(16,101)	12,610
City of Berkeley	51,205	368,271	(192,940)	226,536
Colusa County	80,681	31,743	(19,159)	93,265
Contra Costa County	801,967	1,467,166	(564,606)	1,704,527
Del Norte County	130	36,169	(9,341)	26,958
El Dorado County	265,405	559,445	(332,320)	492,530
Fresno County	1,708,785	1,872,852	(1,573,517)	2,008,120
Fresno County - HCAI Match	5,661,776	-	(1,787,649)	3,874,127
Glenn County	66,949	80,606	(70,265)	77,290
Humboldt County	49,053	109,178	(43,807)	114,424
Imperial County	62,280	48,195	24,859	135,334
Inyo County	22,799	-	-	22,799
Kern County	313,586	353,468	55,767	722,821
Kings County	177,220	56,876	(119,348)	114,748
Lake County	212,027	362,900	(472,441)	102,486
Lassen County	46,928	24,000	(3,157)	67,771
Los Angeles County	30,951,722	17,000,000	(42,358,843)	5,592,879
Los Angeles County- HCAI Match	401,295	2,834,208	-	3,235,503
Madera County	117,403	404,287	(226,073)	295,617
Marin County	645,641	340,959	(309,670)	676,930
Mariposa County	6,149	3,500	(8,191)	1,458
Mendocino County	146,136	-	(39,745)	106,391
Merced County	151,022	380,850	(335,598)	196,274
Modoc County	96,152	89	(48,437)	47,804
Mono County	18,063	-	(12,533)	5,530
Monterey County	1,810,501	353,768	(1,320,736)	843,533
Napa County	110,465	498,544	(371,356)	237,653
Nevada County	224,696	776,842	(535,713)	465,825
Orange County	4,651,921	(1,882,445)	(401,539)	2,367,937
Placer County	359,319	180,979	(206,897)	333,401
Plumas County	185,468	61,472	(64,476)	182,464
Riverside County	3,787,325	4,827,443	(6,626,960)	1,987,808

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE AND EXPENSE REPORT (RER)
FOR THE YEAR ENDED June 30, 2023

	Beginning Balance as of 07.01.22	Revenue	Expenditures and other adjustments	Ending Balance as of 06.30.23
RER By Counties (continued):				
Sacramento County	\$ 3,505,918	\$ 1,902,894	\$ (2,171,294)	3,237,518
San Benito County	89,171	33,447	(33,497)	89,121
San Bernardino County	722,387	758,347	(142,990)	1,337,744
San Diego County	876,677	-	677,220	1,553,897
San Francisco County	1,118,066	875,854	(592,411)	1,401,509
San Joaquin County	626,488	1,593,370	(1,119,887)	1,099,971
San Luis Obispo County	249,247	162,734	(85,099)	326,882
San Mateo County	573,622	408,336	(519,586)	462,372
Santa Barbara County	3,701,836	488,315	(3,539,127)	651,024
Santa Barbara County - HCAI Match	(298,786)	1,508,422	(222,375)	987,261
Santa Clara County	582,315	354,332	(484,676)	451,971
Santa Cruz County	127,300	-	(127,300)	-
Shasta County	87,004	170,363	(166,827)	90,540
Sierra County	-	19,684	(5,084)	14,600
Siskiyou County	91,353	106,467	(186,996)	10,824
Solano County	379,708	245,597	(345,721)	279,584
Sonoma County	654,552	395,457	(321,138)	728,871
Stanislaus County	180,146	782,333	(752,536)	209,943
Sutter/Yuba County	174,636	105,174	(116,970)	162,840
Tehama County	115,330	34,491	52,423	202,244
Tri-City Mental Health	384,978	118,000	(75,663)	427,315
Trinity County	29,707	16,049	(22,423)	23,333
Tulare County	124,779	570,256	(409,925)	285,110
Tuolumne County	49,321	-	(23,382)	25,939
Ventura County	497,598	646,425	(629,632)	514,391
Yolo County	115,077	304,133	(243,790)	175,420
All other restricted funding sources	13,669,961	73,232,821	(49,426,279)	37,476,503
CalMHSA (unrestricted) net position	<u>7,567,359</u>	<u>534,513</u>	<u>8,576,379</u>	<u>16,678,251</u>
Total - Net Position	<u>90,294,445</u>	<u>118,753,932</u>	<u>(112,065,048)</u>	<u>96,983,329</u>
Fiduciary Custodial Fund	<u>(3,752,353)</u>	<u>(10,012,247)</u>	<u>6,839,284</u>	<u>(6,925,316)</u>
Government Wide Statement of Net Position	<u>\$ 86,542,092</u>	<u>\$ 108,741,685</u>	<u>\$ (105,225,764)</u>	<u>\$ 90,058,013</u>

* The amount presented in CALMHSA (unrestricted) net position above includes \$1,273,417 of Net Investment in Capital Assets as of June 30, 2024.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE AND EXPENSE REPORT (RER)
FOR THE YEAR ENDED June 30, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Revenue and Expenses Report (RER) above represents a yearly summary of activity of CALMHSA separated by the various contributing member county for the year ended June 30, 2023. Revenues and Expenses reported on the Schedule are reported on the accrual basis of accounting. The Schedule of Revenue and Expenses report (RER) is presented for the purposes of additional analysis and is not a required part of the financial statements. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in preparation of, the financial statements. Because the Schedule presents only a selected portion of CALMHSA operations, it does not present the financial position, changes in net position, or cash flows of CALMHSA.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, the major fund, and the aggregate remaining fund information of California Mental Health Services Authority as of and for the year ended June 30, 2023, 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 November 1, 2024. Our report included an emphasis of matter noting that the Authority adopted new accounting guidance, GASB Statement No. 96, Subscription Based Information Technology Arrangement. There was no impact to net position as of July 1, 2022 as a result of adoption. Our opinions are not modified with respect to this matter.

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) as a basis for designing 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2023-001, 2023-002, 2023-003, and 2023-005, to be material weaknesses. 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. We consider the deficiency described in the accompanying schedule of findings and responses as 2023-004 to be significant deficiency.

(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether California Mental Health Services Authority 's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

California Mental Health Services Authority's Response to Findings

California Mental Health Services Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. California Mental Health Services Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Costa Mesa, California
November 1, 2024

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

CURRENT YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

2023-001 Management Review over Cash Receipts Process and Bank Reconciliations

Classification:

Material Weakness

Repeat Finding: 2022-001

Criteria:

Management review over invoicing and cash receipts should be in place to ensure CALMHSA has the ability to initiate, record, process, and report accurate financial data consistent with generally accepted accounting principles. In addition, entities should have a strong internal control that shows an independent, separate personnel reviewing a prepared bank reconciliation to ensure balances are accurate and complete. If said function is not segregated, additional monitoring review controls should be established to address and mitigate such risks.

Condition/Context:

During our walkthrough of internal controls, we noted one individual prepared billing invoices for services rendered, recorded the transactions in the general ledger, as well as initiated the monthly cash receipts, without evidence of a secondary review independent of the preparer. In addition, we observed one employee unilaterally performing bank reconciliations without subsequent review to ensure the reconciliations were performed completely and accurately.

Effect:

The lack of management review over the cash receipts process may result in a material misstatement of the financial statements. The lack of a separate review separate from the preparer over bank reconciliations may lead to unreconciled transactions between the bank balances and the entities financial records.

Cause:

Due to the inadequate staffing within the finance department, management did not have an established and documented internal control to ensure proper management review over the bank reconciliations, billing and cash receipting process.

Recommendation:

We recommend that management establish a thorough system of internal controls, which are formally documented and implemented through policies and standard operating procedures. We recommend that management ensures manager approvals in place over the billing and cash receipt processes are formally documented in order to mitigate the risk of materially misstating the financial statements. We recommend that management review and strengthen their implementation of their internal controls in place for bank reconciliations to further require a reviewer to document their inspection of bank reconciliations before bank records are reconciled with the entity's financial records in order to ensure a proper segregation of duties.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

Management's Response:

We have carefully reviewed the material weakness identified in Finding 2023-001 related to management review over the cash receipts process and bank reconciliations. We have taken the following corrective actions to align our internal controls with GASB standards and ensure robust financial reporting:

- **Enhanced and Enforced Segregation of Duties:** We have restructured the invoicing and cash receipts processes to ensure that no single individual handles billing, recording, and cash receipt initiation. We hired more staff members and implemented an independent review process, where all entries are reviewed and approved by a controller, ensuring compliance with GASB's internal control requirements.
- **Strengthened Bank Reconciliation Review:** A dual-review process has been established for bank reconciliations. The preparer completes the reconciliation, signs it, and a second, independent reviewer verifies and approves the reconciliation to ensure accuracy and completeness. This change mitigates risks and adheres to accounting standard guidelines on financial oversight.
- **Documentation and Policy Updates:** Overall we have revised our internal control policies to clearly define roles and responsibilities. These policies are documented and distributed to relevant staff, providing clear guidance on the updated procedures.
- **Staff Training and Development:** Comprehensive training has been provided to all staff involved in these processes. This training emphasizes the importance of segregation of duties and the new review procedures, ensuring all personnel are fully equipped to execute these controls effectively.
- **Monitoring and Evaluation:** Regular internal audits and evaluations is planned to monitor the effectiveness of these controls. This proactive approach will ensure that any issues are promptly addressed and that we remain compliant with GASB standards.

These actions reflect our commitment to strengthening our internal control environment and ensuring the accuracy and reliability of our financial reporting.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

2023-002 Segregation of Duties over Payroll Processing

Classification:

Material Weakness
Repeat Finding: N/A

Criteria:

Entities should have strong internal controls that segregate the ability of an individual to initiate and approve changes to employee records from processing payroll. If such functions are not segregated, detective and monitoring review controls should be established that adequately mitigate such risks.

Condition/Context:

During our walkthrough of internal controls over payroll processes, we observed one employee unilaterally performing changes to underlying employee payroll records and processing payroll in their payroll system. While an outside consultant was engaged to review the entire payroll processing, there was no documented evidence of this review taking place. In addition, we also identified an employee who serves in the operational capacity at CALMHSA who has the capability to process payroll without the need for verification from another independent individual to verify the appropriateness of the processing. As a result, internal controls over the separation of key functions in the payroll process, as well as limiting employee access levels to the payroll system, were not properly designed.

Effect:

Inadequate segregation of duties among personnel with the ability to modify pay levels and process payroll could result in unauthorized payroll transactions.

Cause:

Management had a system conversion for their payroll processing system, effective July 1, 2022. Part of the payroll function was then outsourced to a third-party consultant as CalMHSA did not have adequate staffing to properly operate the control environment surrounding payroll.

Recommendation:

We recommend that management separate the function of processing changes to underlying payroll records from the payroll processing function, as well as create a control to periodically monitor the levels of access users have to the payroll system to assess whether or not their access levels are still relevant and appropriate for their given job function. In addition, we recommend an independent reviewer with sufficient knowledge to oversee and document their review prior to processing the payroll.

Management's Response:

We acknowledge the material weakness identified in Finding 2023-002 concerning the segregation of duties over payroll processing. We take this issue seriously and have implemented corrective measures to address the concerns and strengthen our internal controls.

- **Segregation of Duties:** We have restructured the payroll process to ensure that no single individual has the ability to both modify employee payroll records and process payroll. This separation of duties is now strictly enforced. CalMHSA have designated specific roles for payroll record modifications/payroll processing and payroll approval to prevent any potential conflicts of interest.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

- **Independent Review/Approval:** An independent reviewer with sufficient knowledge of payroll processing has been assigned to review and approve any changes made to employee payroll records before processing payroll. This review is documented and maintained as part of our internal control records to provide evidence of compliance and oversight. The process now includes not only reviewing the entire payroll process but also providing documented evidence of their review and approval. This documentation is saved and available to senior management to ensure ongoing compliance.
- **Access Control and Monitoring:** We have implemented periodic reviews of user access levels within the payroll system. Meantime CalMHSA hired COO and accounting manager, so these additional roles and reviews ensure that all access rights are appropriate for each user's job function and are aligned with the principle of least privilege. Any changes to access levels are reviewed and approved by a separate, independent party.
- **Training:** Training sessions have been conducted for staff involved in the payroll process to reinforce the importance of segregation of duties and proper documentation of all reviews.

We will conduct regular internal audits to ensure the continued effectiveness of these measures and make adjustments as necessary. We are confident that these actions will significantly strengthen our internal control environment over payroll processing and mitigate the risk of unauthorized payroll transactions.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

2023-003 Information System Controls

Classification:

Material Weakness

Repeat Finding: 2022-003

Criteria:

Internal controls over accounting information systems in relation to the general ledger are vital to every organization's control environment. Entities should have internal controls including policies and procedures regarding user access to the general ledger, as well as documented, periodic reviews of the user access credentials possessed by its employees. Where adequate segregation of duties cannot be employed to separate the ability to assign user rights from those who have access to the general ledger to process transactions, detective and monitoring internal controls should be established that adequately monitor user activity of the general ledger.

Condition/Context:

During our audit, we observed that Management did not periodically monitor employees' access credentials and levels of access within the general ledger's information system. We identified one individual who maintained the ability to assign user rights.

Effect:

Improper segregation of duties among personnel responsible for changes to user account security settings while also performing in an operational capacity during the regular course of business could lead to management override of internal controls. The absence of appropriate user access provisioning and monitoring could result in unauthorized transactions recorded in the financial reporting systems, where management would not be able to detect such activity timely.

Cause:

Management had not assigned an individual outside of the finance operational role with the responsibility to provision or monitor user access within the financial applications.

Recommendation:

We recommend adopting a formal policy in which both the IT department and management perform periodic and documented reviews of the general ledger access rights of each employee commensurate with their appropriate level of responsibilities and job function. Standard practice for such review is annual, however, more frequent reviews can be performed if desired. Further, management should ensure that those provisioning user access are separate from those who are processing transactions in the general ledger. The responsibility for provisioning user access is typically performed by a business or system analyst within the IT department. This individual should work with the manager/director of each department, to ensure user access credentials are appropriate for each employee, in accordance with their typical responsibilities.

Management's Response:

We acknowledge the material weakness identified in Finding 2023-003 regarding information system controls and user access management within our general ledger system. We understand the critical importance of robust internal controls over user access to ensure the integrity and security of our financial data.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

We have established formal procedures for the periodic review of user access rights to the general ledger system. This process involves collaboration between the IT department and finance management to ensure that access levels are appropriate for each employee's job function. We have designated an IT specialist, independent of the finance function, to handle the provisioning and modification of user access rights. This specialist works closely with departmental managers to verify that access credentials are commensurate with each employee's responsibilities.

We have segregated the duties of provisioning user access from those who process transactions in the general ledger. This measure ensures that no single individual can override internal controls related to user access and transaction processing. Each review is documented and stored for audit purposes to ensure transparency and accountability. We have enhanced monitoring controls to track user activity within the general ledger. This includes logging and reviewing changes to user access and any unusual transaction activities. The updated policies and procedures regarding user access management and monitoring have been documented and communicated to all relevant staff. These procedures are aligned with best practices and are compliant with applicable internal control standards. We will continue to perform regular internal audits to ensure the effectiveness of these controls and make any necessary adjustments to further strengthen our information system security. We are committed to maintaining a secure and compliant internal control environment.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

2023-004 Management Review over Service Organization Controls (SOC) Reports

Classification:

Significant Deficiency
Repeat Finding: 2022-004

Criteria:

Reports on controls at a service organization (SOC reports) are intended to meet the needs of entities who use service organizations in evaluating the effect of its internal controls on the user entity. Management or the Information Technology (IT) department should review all SOC reports available for software or third-party services that service a significant area of the user entity's operations. This review of external party internal controls serves to protect user entities against risks that could threaten their financial well-being and organizational internal control environment.

Condition/Context:

During our audit, we noted that CalMHSA did not review the SOC report(s) for their general ledger system and their payroll processing systems.

Effect:

Lack of formal review and documented assessment of the SOC reports may lead to unidentified internal control gaps at a service organization.

Cause:

Management performed a GL system conversion effective July 1, 2021. Management also switched their third-party payroll administrators effective July 1, 2022. Management did not establish and implement a formal control to ensure SOC reports for all service organizations utilized by CalMHSA are obtained and reviewed on at least an annual basis.

Recommendation:

We recommend that management obtain SOC reports for service organizations in a timely manner relative to their fiscal year audits, implement formal procedures to review the SOC reports, and document management's assessment of relevant internal control findings, their potential impact, and complementary user entity controls. Standard practice for performing such review is typically once per year, however, should the SOC report period only cover a portion of the entity's fiscal year, we recommend obtaining a Gap Letter from the service organization(s) so that Management can further evaluate their service providers internal controls relevant to the entity's reporting period.

Management's Response:

We acknowledge the deficiency identified in Finding 2023-004 regarding the lack of review and documentation of SOC reports for our general ledger and payroll processing systems. We take this matter seriously and have implemented measures to ensure that all relevant SOC reports are reviewed and assessed in a timely manner to strengthen our internal control environment.

- **Establishment of Formal Review Procedures:** We have developed and implemented a formal policy requiring the annual review of SOC reports with the TPA BDO, Paylocity for all critical service organizations utilized by CalMHSA, including those related to our general ledger and payroll processing systems. This review is now part of our standard operating procedures and is documented in our internal control manual.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

- **SOC Report Collection and Gap Analysis:** We have established a timeline to obtain SOC reports from all service organizations prior to the fiscal year-end audit. In cases where the SOC report does not cover the entire fiscal year, we will obtain a Gap Letter from the service organization. This ensures that we have a complete understanding of the internal controls for the entire reporting period.
- **Management Assessment and Documentation:** Management will conduct a thorough review of all SOC reports received, assessing any relevant internal control findings and their potential impact on our financial reporting. This assessment, including any identified control gaps and the complementary user entity controls in place at CalMHSA, will be documented and maintained for audit purposes.
- **Designation of Responsibilities:** We have designated a member of the IT department, in coordination with the finance team, to be responsible for the collection, review, and documentation of SOC reports. This individual will work closely with the managers of each operational area to ensure all critical third-party controls are evaluated.

We will perform regular internal audits to verify compliance with these procedures and adjust our approach as necessary to maintain a strong control environment. We are committed to ensuring that the integrity of our financial reporting is supported by comprehensive and effective oversight of service organization controls. We believe these actions address the identified deficiency and will significantly strengthen our internal control framework.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

2023-005 Financial Reporting Deficiency in Internal Control

Classification:

Material Weakness

Repeat Finding: 2022-005

Criteria:

Internal controls over the closing and financial reporting process should be in place to ensure CALMHSA has the ability to initiate, record, process, and report accurate financial data consistent with generally accepted accounting principles.

Condition/Context:

During the year-end testing procedures, we identified several adjustments or errors in financial statement disclosures relating to several accounts. These adjustments were reflected in the financial statements to ensure balances were properly accounted and disclosed in accordance with generally accepted accounting principles. The following is a summary of each adjustment:

- **Accounts Payable** – Management recorded expense transactions in FY23 which resulted in a \$400,000 overstatement of accounts payable and expenditures. During our testing, we noted one invoice related to services rendered in both FY23 and the subsequent fiscal year. However, the entire amount was expensed and accrued to FY23, when only two of the six months of service period related to FY23.
- **Intangible Asset Capitalization Policy** – While reviewing management’s calculations for adoption of GASB 96 Subscription Based Information Technology Arrangements, we noted CalMHSA did not have a policy in place related to capitalization of IT assets or intangible assets.
- **Unearned Revenue/Revenue** – Management advance billed its member counties for the BHQIP (Behavioral Health Quality Improvement Program) but did not incur commensurate expenditures in the current year to recognize the revenue. This resulted in overstatement of Revenue and understatement of Unearned Revenue of \$1,151,623.
- **Fund Balance & Net Position Classifications** – Management inadvertently classified restrictions on Help@Hand during FY23 incorrectly, which resulted in improper financial statement classification of \$608,780 of Fund Balance/Net Position as restricted, when it should have been classified as unrestricted.

Effect:

A number of adjustments to the financial statements and disclosures were required during the audit to properly present the Authority’s financial statements in accordance with generally accepted accounting principles.

Cause:

The Authority’s internal control over financial statements did not function at a sufficient level of precision to identify the misstatement during the review process.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

Recommendation:

We recommend management create and adopt a policy to ensure all transactions and activities are properly documented, accounted for, and maintained in the accounting records. Furthermore, periodic reviews should be performed to ensure the policy is operating effectively. Lastly, we recommend that management review future Government Accounting Standards Board (GASB) pronouncements to ensure adequate time is allotted to implement future accounting pronouncements and modify internal controls, accounting processes and financial reporting disclosures as needed.

Management's Response:

We acknowledge the material weaknesses identified in Findings 2023-004 and 2023-005 regarding the management review over Service Organization Controls (SOC) reports and deficiencies in internal controls over financial reporting. We have taken immediate corrective actions to address these issues and strengthen our internal control environment.

- **Policy Development for Financial Reporting:**

We have created and implemented a comprehensive policy for financial statement preparation, including detailed procedures for the recognition and classification of revenue, expenses, and assets. This policy aligns with Generally Accepted Accounting Principles (GAAP) and GASB standards. We do soft monthly closing and periodic quarterly closing.

- **Enhanced Review and Approval Process:**

A multi-level review process has been established for all financial statements and disclosures. This includes a detailed review by the controller and accounting managers followed by a final review by the CFO to ensure accuracy and compliance with financial reporting standards.

- **Specific Actions Taken:**

- 1) **Accounts Payable Adjustments:** We agree with the findings - this is related to the vendor and has been corrected. A new review process has been established to ensure expenses are recorded in the appropriate fiscal period. This includes reviewing all invoices spanning multiple periods.
- 2) **Intangible Asset Capitalization Policy:** We agree with the findings. We have adopted a policy for the capitalization of IT and intangible assets, in compliance with GASB 96. This policy will be applied to all future technology-related expenditures.
- 3) **Unearned Revenue Recognition:** We agree with the findings. We have instituted a policy requiring periodic reviews of revenue recognition, particularly for advance billings, to ensure that revenue is recognized only when corresponding expenditures are incurred.
- 4) **Fund Balance and Net Position Classification:** We agree with the findings. A thorough review process is now in place to ensure proper identification and classification of restricted and unrestricted funds in accordance with GASB guidelines.

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CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

We have scheduled regular internal audits to evaluate the effectiveness of these new controls and to ensure ongoing compliance. We have conducted training sessions for finance and accounting staff on the new policies and procedures, ensuring that they are well-equipped to apply these standards accurately. We will continue to monitor any new GASB pronouncements to allow adequate time for implementation and modification of our financial reporting processes.

We believe these actions address the identified material weaknesses and significantly enhance the accuracy and integrity of our financial reporting. We are committed to maintaining a robust internal control environment and welcome any further recommendations.