

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY (“CalMHSA”)

FINANCIAL STATEMENTS

June 30, 2024

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY ("CalMHSA")
Sacramento, California

June 30, 2024

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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, 2024, 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, 2024, 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*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

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.

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.

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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 Report (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 Report (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 December 19, 2025 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
December 19, 2025

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, 2024. 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, 2024, 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.

Fiscal year 2023–24 represented a period of substantial growth for CalMHSA. Key accomplishments included the launch of California’s first semi-statewide electronic health record designed for behavioral health and the expansion of the Medi-Cal Peer workforce to more than 3,500 certified individuals. The year also marked continued progress in statewide stigma-reduction efforts, payment reform initiatives, and the development of operational solutions supporting county behavioral health systems. The priorities and achievements of the fiscal year were accomplished in close collaboration with county behavioral health departments. These results reflect the shared commitment to serving California’s most vulnerable populations. Looking forward, CalMHSA remains focused on responding to emerging needs and supporting the ongoing advancement of public behavioral health statewide.

CalMHSA Program Highlights, FY 2023-24

Transforming Care through Health IT

During the fiscal year, CalMHSA advanced a multi-county effort to implement a semi-statewide Electronic Health Record (EHR) system designed to support behavioral health care. The EHR promotes consistency across counties, supports California Advancing and Innovating Medi-Cal (CalAIM) payment reform, enables a comprehensive individual record, and improves client experience through secure cross-county data sharing. Implementation has helped streamline administrative workflows, allowing clinicians to focus more time on service delivery. To further strengthen interoperability, CalMHSA developed the state’s first

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behavioral health-focused health information exchange system, supporting care coordination and compliance with state and federal data exchange requirements.

Supporting Care for Californians

In 2023–24, CalMHSA advanced statewide mental health awareness and stigma-reduction efforts through the Take Action for Mental Health campaign. Activities included culturally responsive digital outreach, targeted messaging during Mental Health Awareness Month and Suicide Prevention Month, and distribution of a Winter Wellness toolkit providing accessible information and supportive resources. CalMHSA also supported counties through the Full-Service Partnership Innovation Project, which strengthened data use to improve services for individuals who are unhoused or at risk. An independent evaluation reported improvements in housing stability, reductions in arrests, and decreases in psychiatric admissions among participants. Additional public education efforts, including the Hey Neighbor campaign, increased understanding of county behavioral health services for unhoused individuals. CalMHSA further advanced digital approaches through the Help@Hand project, supporting emotional support tools, screening applications, peer platforms, and digital literacy initiatives. CalMHSA also administered community-based prevention grants and provided oversight for statewide crisis counseling services through the CalHOPE program.

Improving Operations and Measuring Performance

CalMHSA advanced operational efficiency by implementing tools that reduced administrative burden and supported compliance with state and federal requirements, allowing counties to direct more resources toward clinical care. Activities included summarizing policy changes and providing multilingual beneficiary materials. CalMHSA partnered with an accredited credentialing organization to streamline provider credentialing and reduce administrative workload. The concurrent review and authorization program simplified inpatient psychiatric authorization processes across participating counties, while the Presumptive Transfer Portal enhanced inter-county billing accuracy and transparency. To support CalAIM implementation, CalMHSA provided fiscal analysis, office hours, documentation resources, rate modeling, and on-demand training. CalMHSA's quality and managed care teams helped counties identify barriers, implement interventions, and advance performance improvements under the CalAIM Behavioral Health Quality Improvement Program (BHQIP). A standardized Healthcare Effectiveness Data and Information Set (HEDIS) reporting program was further developed to calculate required measures using multi-source data, reducing administrative effort and improving reporting consistency. Additional efforts included continued oversight of crisis counseling and prevention programs statewide.

Strengthening the Behavioral Health Workforce

In 2023–24, CalMHSA continued efforts to strengthen the behavioral health workforce through initiatives aimed at expanding capacity, supporting county needs, and enhancing service quality. As the statewide certifying entity for Medi-Cal Peer Support Specialists, CalMHSA advanced certification processes, expanded training opportunities, and developed tools to help counties integrate Peers into their workforce. Activities included training for justice-involved individuals preparing for reentry, development of a statewide dashboard summarizing Peer workforce characteristics, and publication of employer best-practice guidance. An independent analysis also examined how certification and reimbursement have supported Peer integration within behavioral health systems. To address workforce shortages, CalMHSA supported remote clinical supervision for pre-licensed staff through a HIPAA-compliant virtual platform and administered Workforce Education and Training resources, including loan-repayment, scholarship, and stipend initiatives. Additional efforts included partnering with an academic institution to offer a master's program for county staff and implementing strategies to retain employees in hard-to-fill positions.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2024

Financial Highlights for the Fiscal Year Ended June 30, 2024

Revenues	\$120.1 million	Revenues grew by \$17.4 million from the prior year. It's largely a result of revenue increase by EHR, CalHOPE, LA PEI, and PEER support programs.
Expenses	\$116.1 million	Expenses grew by \$16.9 million over the prior year. It's mostly related to WET, Sacramento Grant Awards, Help@Hand, LA PEI programs and G&A expenses.
Assets	\$150.9 million	Total assets increased by \$26.9 million compared to the prior year. Current assets decreased by \$18.6 million, while non-current assets increased by \$45.6 million. Cash and cash equivalents remained consistent with the prior year's balance.
Liabilities	\$56.9million	Total liabilities increased by \$22.9 million over the prior year. Current liabilities decreased by \$7.8 million, while long-term liabilities increased by \$30.8 million.
Net Position	\$94.1 million	Net Position increased by \$4.0 million over the prior year reaching record \$94.1 million.

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 12 and 13 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 14 through 17 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.

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CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2024

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.

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 2024 and 2023, 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.

	Governmental Activities	
	<u>2024</u>	<u>2023</u>
Assets		
Current and other assets	\$ 100,206,367	\$ 118,798,158
Noncurrent Assets	50,760,158	5,173,800
Total Assets	<u>150,966,525</u>	<u>123,971,958</u>
Liabilities		
Current Liabilities	22,564,119	30,374,818
Long-term liabilities	34,304,362	3,539,127
Total Liabilities	<u>56,868,481</u>	<u>33,913,945</u>
Net Position		
Net Investment in Capital Assets	9,808,587	1,459,190
Restricted	70,354,116	73,379,762
Unrestricted	13,935,341	15,219,061
Total Net Position	<u>94,098,044</u>	<u>90,058,013</u>
Total Liabilities and Net Position	<u>\$ 150,966,525</u>	<u>\$ 123,971,958</u>

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2024

Total assets increased by \$26.9 million from \$123.97 million on June 30, 2023, to \$150.9 million as of June 30, 2024. Cash and cash equivalents decreased by \$0.2 million compared to the prior year, ending the fiscal year at \$88.9 million. Of this amount, \$27.4 million was held in the Local Agency Investment Fund (LAIF), an external investment pool managed by the State Treasurer's Office, and \$61.5 million was held at California Bank & Trust and California Bank of Commerce. Total liabilities increased by \$22.9 million, reaching \$56.8 million as of June 30, 2024, primarily due to the timing of Go-Live dates related to CalMHSA's SBITA liability. Total net position reached \$94.1 million at fiscal year-end, and unrestricted net position decreased to \$12.4 million, with an overall \$4.0 million increase in net position from the prior year.

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	
	<u>2024</u>	<u>2023</u>
Revenues:	\$ 120,114,921	\$ 102,685,504
Expenses:		
Program Expenses	95,236,300	82,900,964
General and Administration	<u>20,838,590</u>	<u>16,268,616</u>
Total Expenses	<u>116,074,890</u>	<u>99,169,580</u>
Change in Net Position	4,040,031	3,515,924
Net Position - Prior Year:	<u>90,058,013</u>	<u>86,542,089</u>
Net Position - Current Year:	<u>\$ 94,098,044</u>	<u>\$ 90,058,013</u>

For the fiscal year ended June 30, 2024, total revenues increased by \$17.4 million or 17.0% compared to the previous fiscal year. The increase is largely a result of funding for EHR, CalHope, LA PEI, and Peer support programs.

Expenses increased by \$16.9 million or 17.0% over the prior fiscal year. The increase is directly related to WET, Sacramento Grant Awards, Help@Hand, LA PEI programs, and G&A-related expenses.

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CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2024

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	
	<u>2024</u>	<u>2023</u>
Revenues:	\$ 122,135,082	\$ 106,122,699
Expenses:		
General Government	151,917,039	101,921,705
Principal and Interest	<u>9,686,981</u>	<u>839,255</u>
Total expenses	161,604,020	102,760,960
Excess of revenues over expenditures	<u>(39,468,938)</u>	<u>3,361,739</u>
Other financing uses/sources		
SBITA financing	<u>37,486,170</u>	<u>2,247,030</u>
Change in Fund Balance	(1,982,768)	5,608,769
Fund Balance - Prior Year:	<u>86,290,598</u>	<u>80,681,829</u>
Fund Balance - Current Year:	<u>\$ 84,307,830</u>	<u>\$ 86,290,598</u>

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 fiscal year 2024, the General Fund's total fund balance was \$84.3 million, or 2.3% decrease 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 \$122.1 million in FY23-24 compared to \$106.1 million in the previous fiscal year. The increase of \$16.0 million or 15.1% is due to additional funds received for Electronic Health Record (EHR), LA PEI, CalHOPE and PEER support programs. Total expenditures during FY23-24 increased to \$161.6 million compared to \$102.8 million in the previous fiscal year. The increase of \$58.8 million is mainly comprised of program expenditures capitalized for the Electronic Health Record (EHR) SBITA asset.

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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 \$9,808,597 as reported under the accrual basis of accounting. In FY 2024 capital assets increased by \$45,586,944 which is primarily due to capitalization of Right-to-Use Subscription Assets. 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 MHSA funds. CalMHSA was created by the counties in 2009, to administer MHSA 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 MHSA 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.

California Proposition 1 (Prop 1) introduces major changes to the State's behavioral health system by authorizing bond funding and restructuring financing to expand treatment facilities, supportive housing, and continuum-of-care capacity for individuals with serious mental illness and substance use disorders. Counties may gain access to capital funding to enhance inpatient, residential, crisis, and community-based behavioral health services. The measure emphasizes outcomes-driven care, alignment with State priorities, and increased accountability, while supporting system transformation through improved care coordination, and expanded supportive housing. The overall impact on counties will depend on State guidance, extended funding, and local priorities to implement and sustain services.

Budgetary Highlights

CALMHSA's annual budget process begins with the development of a preliminary budget, which is subsequently revised to reflect new programs, program closures, and updated financial information. The final budget is then presented to the Finance Committee for review and approval. 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 \$1.1 million. The decrease in revenues is primarily attributable due to changes in Mental Health Service Act (MHSA) funding and lower Prevention and Early Intervention (PEI) funding levels.

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, 2024

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 88,952,985
Prepaid expenses	2,110,105
Accounts receivable	9,119,318
Other assets	23,959
Total current assets	<u>100,206,367</u>
Noncurrent assets:	
Capital assets, net of depreciation	2,359,787
Lease right-to-use asset, net of amortization	1,059,930
Right-to-use subscription asset, net of amortization	47,340,441
Total noncurrent assets	<u>50,760,158</u>
Total assets	<u><u>\$ 150,966,525</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 12,942,570
Accrued expenses	2,247,217
Current portion of subscription liability	7,077,163
Current portion of long-term lease liabilities	267,169
Unearned revenue	30,000
Total current liabilities	<u>22,564,119</u>
Noncurrent liabilities:	
Compensated absences	697,123
Long-term subscription liability	32,656,037
Long-term lease liabilities	951,202
Total noncurrent liabilities	<u>34,304,362</u>
Total liabilities	<u>56,868,481</u>
NET POSITION	
Net Investment in Capital Assets	9,808,587
Restricted	70,354,116
Unrestricted	13,935,341
Total net position	<u>94,098,044</u>
Total liabilities and net position	<u><u>\$ 150,966,525</u></u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED June 30, 2024

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	\$ 116,074,890	\$ 8,782,764	\$ 110,148,751	\$ 2,856,625
Total governmental activities	<u>\$ 116,074,890</u>	<u>\$ 8,782,764</u>	<u>\$ 110,148,751</u>	<u>2,856,625</u>
General Revenues:				
Investment Earnings				983,966
Miscellaneous Income				<u>199,440</u>
Total general revenues				<u>1,183,406</u>
Change in net position				4,040,031
Net position – beginning				<u>90,058,013</u>
Net position – ending				<u>\$ 94,098,044</u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2024

	General Fund
ASSETS	
Cash and cash equivalents	\$ 88,952,985
Prepaid expenses	2,110,105
Accounts receivable	9,119,318
Other assets	23,959
Total assets	<u>\$ 100,206,367</u>
LIABILITIES	
Accounts payable	\$ 12,942,570
Accrued expenses	2,247,217
Unearned revenue	30,000
Total liabilities	<u>15,219,787</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	<u>678,750</u>
Total deferred inflows of resources	<u>678,750</u>
FUND BALANCE	
Nonspendable	2,110,105
Restricted	69,734,106
Unassigned	12,463,619
Total fund balance	<u>84,307,830</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 100,206,367</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, 2024

Total fund balances – per governmental fund balance sheet	\$	84,307,830
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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.		678,750
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Intangible asset - SmartCare Portal		2,331,077
Capital assets at historical cost		46,374
Accumulated depreciation		(17,664)
Net capital assets		2,359,787

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		(713,831)
Net right-to-use leased assets		1,059,930

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		57,428,842
Accumulated amortization		(10,088,401)
Net right-to-use subscription assets		47,340,441

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		(1,218,371)
Subscription liability		(39,733,200)
Compensated absences payable		(697,123)
Total liabilities not due and payable in the current period		(41,648,694)

Net position of governmental activities	\$	94,098,044
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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, 2024

	General Fund
Revenues	
Intergovernmental	\$ 110,692,079
Charges for Services	10,259,597
Investment Earnings	983,966
Miscellaneous	199,440
Total revenues	<u>122,135,082</u>
Expenditures	
Current	
General Government	151,917,039
Debt Service	
Principal Retirement	6,627,262
Interest	3,059,719
Total expenditures	<u>161,604,020</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(39,468,938)</u>
Other financing Uses/Sources	
SBITA Financing	<u>37,486,170</u>
Net change in fund balance	(1,982,768)
Fund balance – beginning	<u>86,290,598</u>
Fund balance – ending	<u>\$ 84,307,830</u>

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, 2024

Net change in fund balance of the general fund	\$ (1,982,768)
Amounts reported for governmental activities in the statement of activities are different because:	
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	(2,020,161)
Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capitalization of New SBITA assets	54,660,944
SBITA amortization expense	(9,901,381)
Intangible asset - SmartCare Portal	1,092,994
Lease amortization expense	(259,575)
Depreciation expense	(6,625)
Assets - Net	<u>45,586,357</u>
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	
Change in compensated absences	(306,436)
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	249,209
The incurrence of lease liabilities provides current financial resources to governmental funds but does not have any effect on net position.	
Other Financing Sources: SBITA	<u>(37,486,170)</u>
Change in net position of governmental activities	<u>\$ 4,040,031</u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2024

	<u>Custodial Funds</u>
ASSETS	
Cash and cash equivalents	\$ 6,686,735
Accounts receivable	<u>342,358</u>
Total assets	<u><u>7,029,093</u></u>
NET POSITION	
Restricted for:	
Individuals, organizations, and other governments	<u>7,029,093</u>
Total net position	<u><u>\$ 7,029,093</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, 2024

	<u>Custodial Funds</u>
ADDITIONS	
Contributions:	
Members	\$ 2,546,572
Total contributions	<u>2,546,572</u>
Investment earnings:	
Interest, dividends, and other	<u>332,691</u>
Total investment earnings	<u>332,691</u>
Total additions	2,879,263
DEDUCTIONS	
Benefits paid to participants or beneficiaries	2,349,893
Refunds and transfers to other systems	<u>425,593</u>
Total deductions	<u>2,775,486</u>
Net increase (decrease) in fiduciary net position	103,777
Net position – beginning	<u>6,925,316</u>
Net position – ending	<u><u>\$ 7,029,093</u></u>

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, 2024, 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

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.

(Continued)

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.

(Continued)

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.

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 AB1299 portal became operational in January 2020. Details on other capitalized assets can be found in Note 5 of this report.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 \$2,110,105 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 \$69,734,106 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.

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 \$12,463,619 as of June 30, 2024.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2024, consisted of the following:

Cash on hand	\$ 57,094,437
Money Market Account	4,435,867
LAIF	<u>27,422,681</u>
	\$ 88,952,985
Fiduciary fund cash on hand	<u>6,686,735</u>
	<u><u>\$ 95,639,720</u></u>

Cash in Bank

As of June 30, 2024, CalMHSA's cash balance per the bank of \$58,486,959 (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, 2024, CalMHSA had \$6,686,735 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 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).

(Continued)

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 \$27,422,681 as of June 30, 2024.

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 2023-2024 total \$9,119,318. As of June 30, 2024, 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, 2024 there was \$30,000 unearned revenue for grants/funds received not yet spent.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2024, was as follows:

	Balance July 1, 2023	Additions	Deletions	Balance June 30, 2024
Capital assets, being depreciated/amortized				
Intangible Asset - SmartCare Portal	\$ 1,238,083	\$ 1,092,994	\$ -	\$ 2,331,077
AB 1299 Portal	581,501	-	-	581,501
Furniture and Equipment	46,374	-	-	46,374
Total capital assets, being depreciated/amortized	1,865,958	1,092,994	-	2,958,952
Less accumulated depreciation/amortization for:				
Intangible Asset - SmartCare Portal	-	-	-	-
AB 1299 Portal	(581,501)	-	-	(581,501)
Furniture and Equipment	(11,040)	(6,625)	-	(17,664)
Total accumulated depreciation/amortization	(592,541)	(6,625)	-	(599,165)
Capital assets, net	1,273,417	1,086,369	-	2,359,787
 Lease right-to-use asset, being amortized				
Lease right-to-use asset	1,773,761	-	-	1,773,761
Total Lease right-to-use asset, being amortized	1,773,761	-	-	1,773,761
Less accumulated amortization for:				
Lease right-to-use asset	(454,256)	(259,575)	-	(713,831)
Total accumulated amortization	(454,256)	(259,575)	-	(713,831)
Lease right-to-use asset, net	1,319,505	(259,575)	-	1,059,930
 Subscription right-to-use asset, being amortized				
Subscription right-to-use asset	2,767,898	54,660,944	-	57,428,842
Total Subscription right-to-use asset, being amortized	2,767,898	54,660,944	-	57,428,842
Less accumulated amortization for:				
Subscription right-to-use asset	(187,020)	(9,901,381)	-	(10,088,401)
Total accumulated amortization	(187,020)	(9,901,381)	-	(10,088,401)
Subscription right-to-use asset, net	2,580,878	44,759,563	-	47,340,441
Total capital assets, net	\$ 5,173,800	\$ 45,586,357	\$ -	\$ 50,760,158

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

NOTE 6 –NONCURRENT LIABILITIES

	Balance July 1, 2023	Adjustments/ Additions	Retirements	Balance June 30, 2024	Due Within One Year
Governmental activities					
Compensated absences	\$ 390,687	\$ 490,882	\$ (184,446)	\$ 697,123	\$ -
Right-to-use subscription liabilities	2,247,030	43,864,223	(6,378,053)	39,733,200	7,077,163
Right-to-use lease liabilities	1,467,580	-	(249,209)	1,218,371	267,169
Total Governmental Activities	<u>\$ 4,105,297</u>	<u>\$ 44,355,105</u>	<u>\$ (6,811,708)</u>	<u>\$ 41,648,694</u>	<u>\$ 7,344,332</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, 2024, was \$1,218,371. The future minimum lease obligation breakdown and the net present value of these minimum lease payments as of June 30, 2024, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	28,513	95	28,608
Totals	<u>\$ 1,218,371</u>	<u>\$ 102,268</u>	<u>\$ 1,320,639</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, 2024. 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.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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 \$57,428,842. After factoring in accumulated amortization totaling \$10,088,401, the net value of the EHR asset is \$47,340,441.

The future minimum SBITA obligation and the net present value of these minimum SBITA payments as of June 30, 2024, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2025	\$ 7,077,163	\$ 2,590,971	\$ 9,668,134
2026	7,775,652	2,112,345	9,887,997
2027	8,589,673	1,563,720	10,153,393
2028	9,489,725	937,080	10,426,805
2029	6,800,987	2,211,333	9,012,320
Totals	<u>\$ 39,733,200</u>	<u>\$ 9,415,449</u>	<u>\$ 49,148,649</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 June 30, 2024, CalMHSA recorded additional subscription liability of \$43,864,223, paired with a corresponding right-to-use asset.

CalMHSA also recorded a prepaid expense of \$1,079,143 during fiscal year 2024, which represents the portion of the participating member's EHR Portal that was not publicly launched as of June 30, 2024. 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. The Plans are not defined benefits and are not subject to reporting under GASB 68 or GASB 73.

(Continued)

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 2024 were \$1,246,554. The plan permits one loan per participant, with Recordkeeper billing expenses amounting to \$26,170. 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 2024 were \$701,812. Recordkeeper billing expenses for this plan were \$17,328. 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
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED June 30, 2024

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
CalHope	\$ 26,894,097	\$ 26,894,097	\$ 24,910,303	\$ (1,983,794)
Innovation & Practice Enhancement	7,929,195	7,929,195	6,021,763	(1,907,432)
FEMA	6,000,000	-	3,401,354	3,401,354
PEI	35,000,000	35,000,000	35,561,756	561,756
Workforce & Loan Forgiveness	12,705,000	12,705,000	9,886,513	(2,818,487)
BHQIP	3,500,000	3,500,000	4,535,437	1,035,437
CalAIM	2,000,000	2,000,000	457,000	(1,543,000)
EHR	20,800,000	20,800,000	23,654,105	2,854,105
PEER	8,100,000	8,100,000	1,710,865	(6,389,135)
Managed Care	1,140,000	1,140,000	2,879,266	1,739,266
Presumptive Transfer	162,500	3,250,000	252,296	(2,997,704)
State Hospitals	800,000	800,000	894,477	94,477
Other Revenues	3,098,500	5,029,093	7,969,947	2,940,854
Total Revenues	<u>128,129,292</u>	<u>127,147,385</u>	<u>122,135,082</u>	<u>(5,012,303)</u>
Expenditures				
Program Expenses	107,390,000	107,390,000	140,332,750	(32,942,750)
General & Administrative	12,362,000	12,362,000	21,271,270	(8,909,270)
Total Expenditures	<u>119,752,000</u>	<u>119,752,000</u>	<u>161,604,020</u>	<u>(41,852,020)</u>
Excess of Revenues over Expenditures	<u>8,377,292</u>	<u>7,395,385</u>	<u>(39,468,938)</u>	<u>(46,864,323)</u>
Other Financing Sources				
SBITA financing	-	-	37,486,170	37,486,170
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>37,486,170</u>	<u>37,486,170</u>
Change in Fund Balance	8,377,292	7,395,385	(1,982,768)	(9,378,153)
Fund Balance, Beginning	<u>86,290,598</u>	<u>86,290,598</u>	<u>86,290,598</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 94,667,890</u>	<u>\$ 93,685,983</u>	<u>\$ 84,307,830</u>	<u>\$ (9,378,153)</u>

SUPPLEMENTARY INFORMATION

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE AND EXPENSE REPORT
FOR THE YEAR ENDED June 30, 2024

	Balance July 1, 2023	Revenue	Expenditures and other adjustments	Balance June 30, 2024
RER By Counties:				
Alameda County	\$ 616,292	\$ 79,406	\$ (127,092)	\$ 568,606
Alpine County	8,658	82	(6,340)	2,400
Amador County	77,840	1,669	(10,718)	68,791
Butte County	54,294	142,027	(128,845)	67,476
Butte County - HCAI Match	947,914	673,722	(224,292)	1,397,344
Calaveras County	12,610	350	(3,177)	9,783
City of Berkeley	226,536	-	(25,921)	200,615
Colusa County	93,265	307,151	(323,236)	77,180
Contra Costa County	1,704,527	(44,899)	(486,486)	1,173,142
Contra Costa County Local WET Funds	-	158,026	-	158,026
Del Norte County	26,958	13,549	(16,061)	24,446
El Dorado County	492,530	274,016	(85,163)	681,383
Fresno County	2,008,120	783,182	(809,178)	1,982,124
Fresno County - HCAI Match	3,874,127	992,395	(1,354,870)	3,511,652
Glenn County	77,290	55,967	(51,793)	81,464
Humboldt County	114,424	125,914	(74,698)	165,640
Imperial County	135,334	48,195	(75,111)	108,418
Inyo County	22,799	-	(21,732)	1,067
Kern County	722,821	267,064	(678,005)	311,880
Kings County	114,748	55,566	(57,104)	113,210
Lake County	102,486	47,659	(115,768)	34,377
Lassen County	67,771	(3,323)	(9,406)	55,042
Los Angeles County	5,592,879	27,955,000	(29,796,765)	3,751,114
Los Angeles County- HCAI Match	3,235,503	5,751,893	(401,295)	8,586,101
Madera County	295,617	56,077	(50,783)	300,911
Marin County	676,930	81,084	(285,333)	472,681
Mariposa County	1,458	3,500	(3,646)	1,312
Mendocino County	106,391	25,144	(20,000)	111,535
Merced County	196,274	223,570	(266,512)	153,332
Modoc County	47,804	218,034	(40,403)	225,435
Mono County	5,530	120,899	(126,336)	93
Monterey County	843,533	585,794	(764,624)	664,703
Napa County	237,653	575,019	(471,826)	340,846
Nevada County	465,825	431,249	(491,994)	405,080
Orange County	2,367,937	(29,996)	(1,364,128)	973,813
Placer County	333,401	204,372	(103,729)	434,044
Plumas County	182,464	7,679	(6,628)	183,515
Riverside County	1,987,808	4,827,442	(4,522,774)	2,292,476

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE AND EXPENSE REPORT (RER)
FOR THE YEAR ENDED June 30, 2024

	Balance July 1, 2023	Revenue	Expenditures and other adjustments	Balance June 30, 2024
RER By Counties (continued):				
Sacramento County	\$ 3,237,518	\$ 12,039,121	\$ (7,829,072)	7,447,567
San Benito County	89,121	1,439	-	90,560
San Bernardino County	1,337,744	196,453	(498,082)	1,036,115
San Diego County	1,553,897	-	(63,926)	1,489,971
San Francisco County	1,401,509	83,944	(376,727)	1,108,726
San Joaquin County	1,099,971	586,412	(417,892)	1,268,491
San Luis Obispo County	326,882	104,664	(142,913)	288,633
San Mateo County	462,372	197,443	(149,874)	509,941
Santa Barbara County	651,024	271,810	(504,801)	418,033
Santa Barbara County - HCAI Match	987,261	1,086,117	(251,813)	1,821,565
Santa Clara County	451,971	194,742	(232,484)	414,229
Santa Cruz County	-	-	-	-
Shasta County	90,540	323,868	(123,714)	290,694
Sierra County	14,600	7,374	-	21,974
Siskiyou County	10,824	130,702	(132,871)	8,655
Solano County	279,584	275,373	(196,333)	358,624
Sonoma County	728,871	226,361	(357,280)	597,952
Stanislaus County	209,943	284,662	(453,662)	40,943
Sutter/Yuba County	162,840	690,159	(411,787)	441,212
Tehama County	202,244	(14,846)	(34,675)	152,723
Tri-City Mental Health	427,315	(29,605)	(267,967)	129,743
Trinity County	23,333	19,825	(15,570)	27,588
Tulare County	285,110	525,486	(214,265)	596,331
Tuolumne County	25,939	-	-	25,939
Ventura County	514,391	222,643	(312,433)	424,601
Yolo County	175,420	21,520	(126,938)	70,002
Yuba County	-	-	-	-
All other restricted funding sources	37,476,503	49,091,036	(57,956,199)	28,611,340
CALMHSA (unrestricted) net position	16,678,251	11,443,003	(4,377,326)	23,743,928
Total - Net Position	96,983,329	122,994,184	(118,850,376)	101,127,137
Fiduciary Custodial Fund	(6,925,316)	(2,879,263)	2,775,486	(7,029,093)

* The amount presented in CALMHSA (unrestricted) net position above includes \$9,808,587 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, 2024

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, 2024. 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, 2024, and the related notes to the financial statements, which collectively comprise California Mental Health Services Authority's basic financial statements, and have issued our report thereon dated December 19, 2025.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001 and 2024-002 that we consider to be material weaknesses.

(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
December 19, 2025

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2024

CURRENT YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

2024-001 Management Review over Cash Receipts Process

Classification:

Material Weakness

Repeat Finding: 2023-001

Criteria:

Management review over invoicing and cash receipts should be in place and formally documented to ensure CalMHSA has the ability to initiate, record, process, and report accurate financial data consistent with generally accepted accounting principles.

Condition/Context:

During our walkthrough of internal controls respective of the cash receipt cycle, we noted CalMHSA had a process in place related to independent preparation of billing invoices for services rendered, recording of the transactions in the general ledger, as well as reconciliation, and approval of the monthly cash receipts. However, this process was not adequately documented to substantiate the existence of effective review and approval over cash receipts. While subsequent measures have been put into place by management, they were implemented subsequent to the fiscal year under audit.

Effect:

The lack of management review over the cash receipts process may result in a material misstatement of the financial statements.

Cause:

Due to inadequate staffing within the finance department, management did not have an established, and documented, internal control to ensure proper management review over the billing and cash receipting process. This was also due in part to the timing of our prior year audit report and period being audited in the current fiscal year.

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, as well as ensure proper segregation of duties exists and is well documented within CalMHSA's system of internal controls.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2024

Management's Response:

Management acknowledges the auditor's findings and concurs that, while controls over the cash receipts process were operating during the fiscal year ended June 30, 2024, certain elements of management review and formal documentation were not sufficiently evidenced to fully satisfy auditors' request and remediate the material weakness as of year-end.

During the fiscal year, CalMHSA implemented enhanced segregation of duties, strengthened system access controls, ongoing management review of cash receipts and bank reconciliations, and regular monitoring as part of the monthly close process, which significantly improved the control environment and reduced the risk of misstatement. However, due to staffing transition priorities, timing of prior-year audit, focus to adopt and formalize procedures and certain controls, we didn't fully implement and document controller's review processes.

Management is committed to completing the formal documentation, changing the process from negative assurance to a positive assurance, and monitoring to ensure sustained compliance with GASB and GAAP requirements and to fully remediate this material weakness in future periods.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2024

2024-002 Financial Reporting Deficiency in Internal Control

Classification:

Material Weakness

Repeat Finding: 2023-005

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:

- **Subscription Based Information Technology Arrangement (SBITA)** – During our review of the client's SBITA calculations, we noted management inadvertently included forecasted future expenditures that had not occurred yet as of June 30, 2024, as capitalizable costs which overstated the pre-discounted calculation of the SBITA asset. As a result, this overstated the SBITA asset and liability by \$9,500,056. Furthermore, management failed to accurately record a prepaid SBITA asset for two member agencies that had not reached their "go-live" date by June 30, 2024. Consequently, a \$1,079,143 adjustment was made to properly recognize the prepaid SBITA asset.
- **Return of Program Funds** – During our testing of revenue transactions, we observed that management recorded \$4,004,622 of expenses related to the return of program funds to counties as a decrease to revenue. The appropriate accounting treatment requires these expenses to be recorded separately, rather than as an offsetting adjustment within a revenue account. This resulted in both revenues and expenses being understated by \$4,004,622; however, the bottom-line net position was not affected.
- **Accounts Payable** – During our accounts payable testing, we identified two invoices amounting to \$773,576 that were not properly accrued in current fiscal year. One invoice pertained to vendor services rendered in May 2024, while the other involved the return of unused program funds to a participating county, where the refund amount was determined and payment to the county was certain as of June 30, 2024. This omission resulted in an understatement of accounts payable and expense, which impacted the net position by \$773,576.
- **Net Position Reclassifications** – During our review of Net Position, we noted the following adjustments to financial statements below. Total Net Position was not affected, as the adjustments below reflect a series of reclassifications within the Net Position.
 - For the Net Investment in Capital Assets (NICA) calculation, we noted that management did not factor in the Right to Use-Lease Assets and Subscription Assets, as well as their respective liability balances. The result was understatement of NICA and overstatement of Unrestricted Net Position in the amount of \$7,448,800; and
 - We noted that management did not properly reflect the changes in Unavailable Revenue account between Charges for Services and Operating Grants & Contributions revenues within the government-wide statement of activities. This resulted in an increase to Restricted Net Position and decrease to Unrestricted Net Position in the amount of \$1,476,833.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2024

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 sufficient level of precision to identify the misstatement during the review process.

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:

Management acknowledges the material weakness in internal control over financial reporting and accepts the auditors' findings. While the financial statements were ultimately presented in accordance with generally accepted accounting principles, management agrees that certain controls within the year-end closing and financial reporting process did not operate at a sufficient level of precision to identify all required accounting adjustments prior to audit. The identified adjustments primarily relate to complex accounting areas, including implementation of GASB 96 Subscription-Based IT arrangements, revenue and expense classification, accounts payable cutoff, and net position reclassifications.

In response, management has implemented a comprehensive financial reporting and close policy, purchase order system, strengthened monthly and quarterly closing procedures, and implemented multi-level management reviews, including enhanced accounts-level controls to improve review precision and validation. Also, policies and standardized templates have been adopted for SBITA and intangible asset accounting, accounts payable accruals, revenue recognition, and net position classification. Finance staff have received targeted training, and ongoing monitoring procedures have been implemented. Management believes these actions represent significant progress and will improve the accuracy of financial reporting going forward.