

**CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017**



California Mental Health Services Authority

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Mental Health Services Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of California Mental Health Services Authority ("CalMHSA") as of and for the fiscal years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise CalMHSA's basic financial statements as listed in the table of contents.

Managements Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States or the minimum requirements prescribed by the State Controller's Office for special district audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of California Mental Health Services Authority as of June 30, 2018 and 2017, and the respective changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

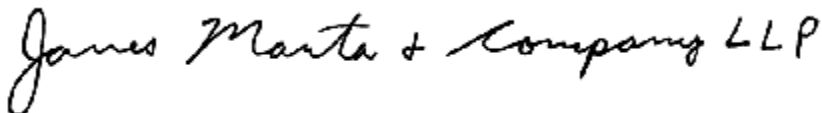
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Statement of Revenues, Expenditures and Change in Fund Balance – Budget (Non-GAAP) and Actual – General Fund – June 30, 2018 and Statement of Revenues, Expenditures and Change in Fund Balance – Budget (Non-GAAP) and Actual – General Fund – June 30, 2017 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2019 on our consideration of California Mental Health Services Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



James Marta & Company
Certified Public Accountants
Sacramento, California
January 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2018 AND 2017

Management of California Mental Health Services Authority (“CalMHSA”) is pleased to present the following discussion and analysis that provides an overview of the financial position and activities of the Authority for the fiscal years ended June 30, 2018 and 2017. The discussion should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Overview of CalMHSA

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

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

As of June 30, 2018, 56 members (54 counties, one city and one JPA) work together to develop, fund programs that include, but not limited to, prevention and early intervention, State or other mental hospital beds and similar related services, State or federal government for administration of mental health services, programs or activities including but not limited to the Drug Medi-Cal Treatment Program, managed mental health care, delivery of specialty mental health services; operate program risk pools; provide any other similar or related fiscal or administrative services that would be of value to Members such as group purchasing, contract management, research and development, data management, maintenance of a research depository, training, technical assistance; capacity building; education and training; research, develop, and execute any appropriate policy request from the California State Association of Counties (CSAC) or its affiliates, on a statewide, regional or local level.

Background

In 2004, California voters passed Proposition 63 (The Mental Health Services Act) (MHSA), landmark legislation that created an ongoing funding source and a framework for transforming California’s traditional community mental health system into a system equipped to support prevention and wellness, and on addressing the unmet needs of California’s diverse and underserved population groups with culturally relevant and effective services and education. In 2007, the MHSOAC, which was created as a stipulation of the MHSA to oversee the management of these funds, approved a one-time investment of

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\$160 million over four-years. Three strategic initiatives were identified through a stakeholder process and approved by the MHSOAC in May 2008, for the distribution of this one-time allocation: \$40 million for Suicide Prevention (SP), \$60 million for Student Mental Health (SMH), and \$60 million for Stigma and Discrimination Reduction (SDR). On April 15, 2010, CalMHSA executed a contract with the California Department of Mental Health (CDMH) for the amount not to exceed \$160 million. The term of this contract was through June 30, 2014.

Sustainability - Phase I & Phase II

As the end of the four-year period approached, the CalMHSA Board of Directors adopted a two-phase planning strategy for continuing the investment in statewide PEI efforts. In April 2014, the CalMHSA Board approved a Phase I Funding Plan to sustain the existing Statewide PEI projects through June 30, 2015. Phase I was recognized as a short-term sustainability solution for the purpose of providing program partners with additional time to successfully complete their activities and deliverables, and to reduce the risk of any adverse consequences of discontinuing activities (e.g., the ability to measure long-term impact). In August 2014, the CalMHSA Board approved a Phase II Funding Plan for purpose of continuing work related to PEI projects through June 30, 2017. Funding for Phase I and Phase II is derived from current county members committing a range of 1% to 7% funding from their local PEI funds in addition to CalMHSA seeking other funding to include state and federal resources.

Sustainability - Phase III

Through implementation of the Phase III CalMHSA Statewide PEI Project Plan, CalMHSA and its member counties embarked on the 7th year of PEI Project activities. In December 2016, the CalMHSA Board approved a Phase III Funding Plan for purpose of continuing work related to PEI projects through June 30, 2020. Funding for Phase III is derived from current county members committing 4% of their annual PEI funds to CalMHSA on an annual basis for 3 years.

2017/2018 Program Highlights

Statewide PEI Project

Key achievements of the Statewide PEI Project during the fiscal year include:

- Over 350,000 Lime Green Ribbons disseminated throughout the state, bringing the total to almost 1.5 million ribbons disseminated to date
- Nearly 1 million hardcopy materials were disseminated in counties, schools, and CBOs
- Over \$170,000 in mini-grant funds were provided to CBOs, NAMI affiliates, Active Minds Chapters and Community Colleges to host community outreach events utilizing Each Mind Matters resources and messaging
- The Directing Change Program received over 740 videos submissions from over 150 schools across California, engaging over 2,400 students

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- Nearly 10 new Each Mind Matters culturally adapted resources were developed
- Over 30 news broadcasts, news articles and radio reports discussed programs implemented by the Statewide PEI Project
- Over 400 county agencies, schools, local and statewide organizations across California were touched by programs implemented by the Statewide PEI Project

While the CalMHSA Statewide PEI Project has made significant accomplishments since its inception in 2011, there continues to be a critical need to continue the investment over the long term. The Phase II Plan for sustaining CalMHSA Statewide PEI Projects called for \$20 million per year - \$10 million was expected to be raised from county MHSA contributions, and \$10 million was expected to be raised from state, federal, or foundation funding. Despite numerous attempts to find diverse funding to sustain the Phase II Plan, funding for implementation has come solely from counties. This has resulted in a reduced implementation of the Plan based upon priorities set out by the Board.

During 2017 the focus was on forming a fundraising office and procurement of a fundraising database for data collection, generating reports, etc. As part of this process a Leadership Council was also convened of private sector entities that would help shape mutual goals between the public and private sectors. Since January 18, 2018, the first meeting of the Leadership Council, three additional meetings have been hosted to continue to narrow down the focus of this collaborative group in order to further grow the interest and membership of the council from other private sector entities.

Strategic Programs

In addition to the Statewide PEI program, the following strategic programs are also included in CalMHSA's operations during the fiscal year ended June 30, 2018:

- **Fiscal Modernization** - the goal of the pilot study is to provide counties with the background and structure necessary to consider the risks and benefits associated with proposing changes to California's current specialty mental health delivery system and financial risk structure.
- **Sutter Health Systems** – Sutter Health Valley Area funding would support the Each Mind Matters (EMM) Community Integration and Stigma Reduction Proposal. Grantee will provide community based organization Stigma and Discrimination Reduction (SDR) engagement grants, school SDR engagement grants, will disseminate SDR/EMM materials to Sutter facilities and partners, and will provide assistance on SDR/EMM message integration and use of materials, for maximum impact.
- **Wellness Center** – This program was funded by the County of Plumas. CalMHSA, acting as the contract administrator for the County, has contracted with the Plumas Crisis Intervention Resource Center (PCIRC) to establish Wellness Centers in the communities of Chester, Greenville, Portola and Quincy. These Wellness Centers will compliment and build on the existing Family Resource Center Model and will be developed with an understanding of best practices in the delivery of community mental health services.

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- **Drug Medi-Cal** – CalMHSA provided Drug Medi-Cal Organized Delivery System (DMC-ODS) Waiver trainings to counties that opted into the DMC-ODS Waiver, counties that received approval to form a regional delivery system, and providers selected by counties to provide DMC-ODS Waiver services.
- **State Hospital Beds** - CalMHSA acts on behalf member counties (and possibly non-member counties via a contract) in the annual purchase contract for State Hospital Beds (as provided under sections 4330 et seq. of WIC).
- **Suicide Prevention Hotline** – CalMHSA contracted with Kings View Behavioral Health to operate the Central Valley Suicide Prevention Hotline with specialized support and outreach provided to the seven contributing counties of Fresno, Kings, Mariposa, Madera, Merced, Stanislaus and Tulare.
- **LA County Media Campaign** – CalMHSA will continue its statewide efforts in the development of cultural adaptation and customization of marketing assets, and advertisements in an effort to support a Prevention and Early Intervention media campaign focused on Mental Health Month (May 2018). As part of this effort the key focus will be on breaking down barriers to treatment by engaging with stakeholders using new and innovative messaging and a call to action.
- **INN Tech Suite Project** - The Innovation Technology Suite Project (INN Tech Suite Project) is being administered by CalMHSA on behalf of participating member counties. This is a three-year demonstration project which is funded and directed by counties. The primary purpose of this INN Tech Suite Project is to increase access to mental health care and support and to promote early detection of mental health symptoms, or even predict the onset of mental illness. Through the utilization of multiform-factor devices, such as smart phones, tablets and laptops, as a mode of connection and treatment to reach people who are likely to go either unserved or underserved by traditional mental health care, project services will focus on prevention, early intervention, family and social support to decrease the need for psychiatric hospital and emergency care service.
- **CCC Behavioral Health Services (CCBHS) Employee Loan Forgiveness Program** – The Program is designed to pay employee loan debt incurred by current or prospective employees or contractors who fill positions that Contra Costa County has deemed to be a) hard to fill or retain, or b) part of a mental health career path. The participant (County) will identify to CalMHSA the names of current or prospective employees or contractors, their respective employee lending institutions, employee loan amounts owed, and the schedule and amount to be paid to the employee lending institutions. Upon verification by Participant of an employee's continued eligibility for loan forgiveness, CalMHSA will make payments directly to the employee's identified employee lending institution(s), and verify funds receipt by the employee lending institution and the reduced balance owed by the employee.
- **AB1299 | Presumptive Transfer for Foster Youth** - California law allows foster children who are placed outside of their county of original jurisdiction to access specialty mental health services in a timely manner through “presumptive transfer”. This requires the transfer of funds between counties. CalMHSA is working with counties to analyze the use of CalMHSA as a fiscal agent (CalMHSA) to more efficiently and cost-effectively process payments between counties.

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Under the Welfare and Institution Code § 14717.1, responsibility for providing or arranging for specialty mental health services shall promptly transfer from the county of original jurisdiction to the county in which a foster child resides, subject to any exceptions established pursuant to that section. This is known as “presumptive transfer.” Counties have agreed that the county of original jurisdiction (sending county) remains responsible for reimbursing the receiving county for specialty mental health services provided or arranged by the receiving county. Under this program, CalMHSA acts as a fiscal agent for participating counties to make and receive transfer payments of county match dollars. Counties will start participating in this program July 1, 2018.

Financial Highlights for the Fiscal Year Ended June 30, 2018

Revenues	\$44.6 million	Revenues increased significantly over the prior year. The \$37 million increase is a result of contributions from member counties for new programs, namely LA County Media Campaign (\$13.5 million) and Innovation Technology Suite Project (\$20.7 million), along with a \$2.8 million or 51% increase in contributions for the PEI Program.
Expenses	\$18.5 million	Expenses increased \$9.8 million over the prior year. The increase is directly related to the new programs, as expenses for PEI remained relatively flat at \$6.9 million.
Assets	\$34.4 million	Assets increased \$27.1 million over the prior year as CalMHSA received contributions from member counties for the new programs mentioned above. Funds were collected in 2017/2018 for some programs in which expenses expect to be incurred over the next few years. See footnote C of the Notes to the Basic Financial Statements.
Liabilities	\$ 3.1 million	Liabilities increased \$1.1 million over the prior year. The increase is related to the growth of the CalMHSA programs resulting in more amounts owed to contractors at year-end.

Description of the Basic Financial Statements

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

The **Statement of Net Assets** presents information on all of CalMHSA’s assets and liabilities, with the difference between the two representing net assets (equity). Changes from one year to the next in total

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net assets as presented on the Statement of Net Assets are based on the activity presented on the Statement of Revenues, Expenses and Changes in Net Assets.

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

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

Analysis of Overall Financial Position and Results of Operations

The following sections provide additional details on CalMHSA’s financial position and activities for fiscal years 2018 and 2017, and a look ahead at economic conditions that may affect CalMHSA in the future.

I. Statement of Net Assets

	2018	2017	2016	Change Over Prior Year
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 19,915,121	\$ 6,309,433	\$ 7,713,846	216%
Investments	12,951,443			
Contractor prepayments			60,000	
Accounts receivable	1,458,946	905,116	1,039,048	61%
Prepaid expenses	41,294	44,583		100%
Total Current Assets	<u>34,366,804</u>	<u>7,259,132</u>	<u>8,812,894</u>	373%
LIABILITIES				
Current Liabilities				
Accounts payable	2,469,908	1,950,661	1,541,735	27%
Deferred revenue	592,481	52,093	780,361	1037%
Total Current Liabilities	<u>3,062,389</u>	<u>2,002,754</u>	<u>2,322,096</u>	53%
RESTRICTED NET POSITION	<u>\$ 31,304,415</u>	<u>\$ 5,256,378</u>	<u>\$ 6,490,798</u>	496%

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MANAGEMENT DISCUSSION AND ANALYSIS

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Total assets increased by \$27.1 million from \$7.3 million at June 30, 2017 to \$34.4 million at June 30, 2018. The increase in assets is a result of contributions from member counties for new programs, namely LA County Media Campaign (\$13.5 million) and Innovation Technology Suite Project (\$20.7 million), along with a \$2.8 million or 51% increase in contributions for the PEI Program. This resulted in a \$13.6 million increase in cash and cash equivalents and \$13.0 million in investments.

\$3.4 million is held in the Local Agency’s Investment Fund (LAIF), an external investment pool managed by the State Treasurer’s Office, \$15.1 million is held by Morgan Stanley Smith Barney (MSSB) in a money fund and \$13.0 million in individual securities. The effective yield of CalMHSA’s total portfolio at June 30, 2018 was 1.85%.

Total liabilities increased by \$1.1 million from \$2.0 million at June 30, 2017 to \$3.1 million at June 30, 2018. The increase is related to the growth of the CalMHSA programs resulting in more amounts owed to contractors at year-end. Additionally, there was an increase in deferred revenue, CalMHSA’s liability to member counties who prepaid 2018/19 and 2019/20 contributions during the fiscal year ended June 30, 2018. The contributions will be recognized as revenue during the applicable fiscal years.

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

	2018	2017	2016	Change Over Prior Year
Revenues	\$ 44,566,966	\$ 7,464,257	\$ 8,583,344	497%
Program Expenses	17,987,492	7,979,846	11,807,473	125%
General and Administration	531,437	718,831	689,831	-26%
Total Expenditures/Expenses	<u>18,518,929</u>	<u>8,698,677</u>	<u>12,497,304</u>	113%
Change in Fund Balance/Net Position	26,048,037	(1,234,420)	(3,913,960)	
Fund Balance/Net Position				
Beginning of Year	<u>5,256,378</u>	<u>6,490,798</u>	<u>10,404,758</u>	
End of Year	<u>\$ 31,304,415</u>	<u>\$ 5,256,378</u>	<u>\$ 6,490,798</u>	496%

For the fiscal year ended, June 30, 2018, total revenue increased by \$37.1 million. The increase in revenues was a result of new sources of funding for new programs - LA County Media Campaign (\$13.5 million) and Innovation Technology Suite Project (\$20.7 million). Additionally, funding for the PEI Program increased \$2.8 million over the prior year. As a result of the higher assets, investment income increased \$172 thousand over the prior year.

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MANAGEMENT DISCUSSION AND ANALYSIS

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Expenses were \$18.5 million in fiscal year 2018. This was a \$9.8 million increase compared to 2017. The increase is directly related to the new programs, as expenses for PEI remained relatively flat at \$6.9 million. Expenses are expected to increase next year since funds were collected in advance for the Innovation Technology Suite Project, but program development and implementation will occur over the next several years.

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

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 2010, to administer MHSA PEI projects on a statewide basis. Through the initial implementation and the second phase (Phase I: 2011-2015 and Phase II: 2015-2017) 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, or others. Working with the Finance Committee and the Sustainability Task Force, CalMHSA staff will develop a financing and budget framework for how County Specific Projects can be implemented and applied to a region of counties in FY 2018/2019.

The feasibility study conducted in 2016 made it clear that private parties intend to only support activities, not supplant the current funding, and will supplement commensurate with county funding. This requires that counties commit to maintain and build a level of funding in order to secure and leverage those additional private funds - estimated county support to eventually reach \$15 million per year.

BASIC FINANCIAL STATEMENTS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 19,915,121	\$ 6,309,433
Investments	12,951,443	-
Prepaid expenses	41,294	44,583
Receivables	1,458,946	905,116
Total Current Assets	<u>\$ 34,366,804</u>	<u>\$ 7,259,132</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 2,469,908	\$ 1,950,661
Unearned revenue	592,481	52,093
Total Current Liabilities	<u>3,062,389</u>	<u>2,002,754</u>
FUND BALANCE / NET POSITION		
Net Position:		
Operations	315,107	527,123
Obligated Funds Under Contract:		
International SDR Conference	-	(50,113)
Tech Asst/Capacity Building	203,887	203,272
WET Program Funding	149,995	148,470
Fiscal Modernization	86,218	96,309
SHB Program Funding	1,884,819	1,683,903
Wellness Center	141,060	139,626
Suicide Prevention Hotline	122,403	119,715
Community Response Plan	-	1,045
PNWE	-	7,576
Drug Medi-Cal	(6,671)	(6,603)
Orange County	-	2,862
Education Development Center, Inc.	-	2,024
Statewide PEI Project	3,137,671	1,890,674
Sutter Health Systems	44,237	190,477
LA County Tech Assist	-	46,788
Public/Private Partnership Development	57,220	253,230
CCBHS Loan Forgiveness Program	202,509	-
AB1299	(16,180)	-
LA County Media Campaign	5,614,242	-
Innovation/Tech Suite	19,367,898	-
Total Restricted	<u>31,304,415</u>	<u>5,256,378</u>
Total Liabilities and Fund Balance/Net Position	<u>\$ 34,366,804</u>	<u>\$ 7,259,132</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	Strategic Programs	Operations	PEI Funding	2018 Total	2017 Total
REVENUES:					
Suicide Prevention Hotline Funding	\$ 664,292	\$ -	\$ -	\$ 664,292	\$ 636,376
Community Response Plan Funding	-	-	-	-	5,000
SHB Funding	549,400	-	-	549,400	550,802
Feasibility Study Funding	-	-	-	-	(13,281)
PEI Funding	-	-	8,206,539	8,206,539	5,437,065
Orange County Funding	(3,573)	-	-	(3,573)	-
Donations	-	3,500	-	3,500	-
EDC Funding	-	-	-	-	3,000
Application Fee	-	-	-	-	500
Sutter Health Systems Funding	-	-	-	-	250,000
LA County Tech Assist Funding	-	-	-	-	92,000
Public/Private Partnership Development Funding	384,104	-	-	384,104	448,230
License Royalty Fee	-	760	-	760	600
CCBHS Loan Forgiveness Program	300,000	-	-	300,000	-
Innovation/Tech Suite	20,735,684	-	-	20,735,684	-
LA County Media Campaign	13,500,000	-	-	13,500,000	-
Investment Income	159,500	3,016	63,744	226,260	53,965
Total Revenue	<u>36,289,407</u>	<u>7,276</u>	<u>8,270,283</u>	<u>44,566,966</u>	<u>7,464,257</u>
EXPENDITURES/EXPENSES:					
Program Expenses					
SDR Conference	(70,000)	-	-	(70,000)	-
SHB Program Expense	311,979	-	-	311,979	214,208
Feasibility Study Expense	9,595	-	-	9,595	60,320
Program Expense	-	249,808	6,801,094	7,050,902	6,353,141
Wellness Center Expense	-	-	-	-	481,312
Suicide Prevention Hotline Expense	648,298	-	-	648,298	550,676
Community Response Plan Expense	-	-	-	-	14,704
Drug Medi-Cal Expense	-	-	-	-	1,806
Orange County Expense	(711)	-	-	(711)	-
EDC Expense	-	-	-	-	3,944
Sutter Health Systems Expense	147,145	-	-	147,145	59,523
LA County Tech Assist	46,788	-	-	46,788	45,212
Public/Private Partnership Development Expenses	533,277	-	-	533,277	195,000
CCBHS Loan Forgiveness Program	97,000	-	-	97,000	-
Innovation/Tech Suite	1,395,917	-	-	1,395,917	-
LA County Media Campaign	7,809,792	-	-	7,809,792	-
AB1299	7,510	-	-	7,510	-
Total Program Expense	<u>10,936,590</u>	<u>249,808</u>	<u>6,801,094</u>	<u>17,987,492</u>	<u>7,979,846</u>
General and Administration	<u>97,571</u>	<u>340,741</u>	<u>93,125</u>	<u>531,437</u>	<u>718,831</u>
Total Expenditures/Expenses	<u>11,034,161</u>	<u>590,549</u>	<u>6,894,219</u>	<u>18,518,929</u>	<u>8,698,677</u>
Change in Fund Balance/Net Position	25,255,246	(583,273)	1,376,064	26,048,037	(1,234,420)
Operating Transfer	(242,190)	371,265	(129,075)	-	-
FUND BALANCE/NET POSITION					
Beginning of year	2,838,581	527,115	1,890,682	5,256,378	6,490,798
End of year	<u>\$ 27,851,637</u>	<u>\$ 315,107</u>	<u>\$ 3,137,671</u>	<u>\$ 31,304,415</u>	<u>\$ 5,256,378</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

California Mental Health Services Authority ("CalMHSA") is an independent administrative and fiscal government agency focused on the efficient delivery of California Mental Health Projects. CalMHSA was established by a Joint Powers Agreement on July 1, 2009, under Government Code Section 6500 et seq. among California Counties to obtain and administer public funds to provide certain community mental health services to persons residing within the same counties and cities. Member counties jointly develop, fund and implement mental health services, projects, and educational programs at the state, regional, and local levels. CalMHSA is governed by a Board of Directors, which is composed of the local county or city mental health director from each member, appointed or designated. As of June 30, 2018, there were 56 members (54 counties, one city and one JPA).

Admission

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

Withdrawal

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

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

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

A. REPORTING ENTITY (Continued)

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

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

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

B. BASIS OF PRESENTATION

The Statement of Net Position and the Statement of Activities display information about CalMHSA. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

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

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

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

Governmental Fund Financial Statement

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

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

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

Through implementation of the Phase III CalMHSA Statewide PEI Project Plan, CalMHSA and its member counties embarked on the 7th year of PEI Project activities. Funding for Phase III (July 1, 2017 through June 30, 2020) is derived from current county members committing 4% of their annual PEI funds to CalMHSA on an annual basis for 3 years.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

In addition to the PEI program, the following strategic programs were also included in CalMHSA's operations during the fiscal year ended June 30, 2018:

- **Wellness program** – This program was funded by the County of Plumas. CalMHSA, acting as the contract administrator for the County of Plumas, has contracted with the Plumas Crisis Intervention Resource Center (PCIRC). PCIRC is tasked to establish Wellness Centers in the communities of Chester, Greenville, Portola and Quincy. These Wellness Center will compliment and build on the existing Family Resource Center Model and will be developed with an understanding of best practices in the delivery of community mental health services and provide a consumer-driven, community based setting that offers a casual and friendly environment for community members to access mental health and other ancillary services.
- **Suicide Prevention Hotline** – CalMHSA contracted with Kings View Behavioral Health to operate the Central Valley Suicide Prevention Hotline with specialized support and outreach provided to the seven contributing counties of Fresno, Kings, Mariposa, Madera, Merced, Stanislaus and Tulare.
- **Community Response Plan** – CalMHSA contracted with subject matter experts to develop a comprehensive suicide response protocol/toolkit for the rural community of the Tahoe/Truckee area. Furthermore, they will develop a template and guidelines that can be used by other Central Region counties to replicate a suicide response protocol/toolkit that meets any Central Region rural community's needs. This program was closed out in 2018.
- **Psychiatric Nurse Workforce Exploration (PNWE)** – CalMHSA will research and explore opportunities to increase the number of psychiatrists and/or psychiatric Nurse Practitioners in the Central Region. After sharing findings with county representatives on the Central Region sub-committee, CalMHSA may contract with subject matter experts to develop a program that meets the needs of the region. This program was closed out in 2018.
- **Drug Medi-Cal** – CalMHSA provided Drug Medi-Cal Organized Delivery System (DMC-ODS) Waiver trainings to counties that opted into the DMC-ODS Waiver, counties that received approval to form a regional delivery system, and providers selected by counties to provide DMC-ODS Waiver services. CalMHSA will also provide technical assistance to counties and providers as required by the Department of Health Care Services (DHCS) and provide DHCS with monthly progress reports; trainings up to once quarterly and a final report.
- **Orange County** – Orange County, Member of CalMHSA, utilized CalMHSA for procuring consulting services, using various providers, for purposes related to completion of the California Health Facilities Financing Authority application and contract procurement for Crisis Stabilization Units.
- **Education Development Center (EDC)** – EDC's suicide prevention resource center is funded by the Substance Abuse and Mental Health Services Administration to provide suicide prevention services and resources to a variety of professionals. It is essential that this information be provided in a culturally appropriate manner. CalMHSA will create a brief set of guidelines to help staff in state and community programs develop culturally competent suicide

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

prevention materials for the audiences they serve, drawing on CalMHSA's experience tailoring resources for California's diverse communities. This program was closed out in 2018.

- **Sutter Health Systems** – Sutter Health Valley Area funding would support the Each Mind Matters (EMM) Community Integration and Stigma Reduction Proposal. Grantee will provide community based organization Stigma and Discrimination Reduction (SDR) engagement grants, school SDR engagement grants, will disseminate SDR/EMM materials to Sutter facilities and partners, and will provide assistance on SDR/EMM message integration and use of materials, for maximum impact.
- **Los Angeles County Technical Assistance** – The Los Angeles County Department of Mental Health (LACDMH) proposes to engage in a multi-county Innovation project to work with one or more technology companies with experience with virtual mental health care platforms. This includes the capacity to implement technology-based mental health solutions accessed through multifactor devices (for example, a computer, smartphone, etc.) to identify and engage individuals, provide automated screening and assessments and improve access to mental health and supportive services focused on prevention, early intervention, family support, social connectedness and decreased use of psychiatric hospitals and emergency services.
- **Public/Private Partnership Development** – CalMHSA entered into an agreement with Lester Consulting Group to render professional counsel to advance the research, strategy, systems, and processes required to launch a \$75 million campaign to advance mental health service throughout California.
- **Innovation Tech Suite** – The Innovation Technology Suite Project (INN Tech Suite Project) is being administered by CalMHSA on behalf of participating member counties. This is a three-year demonstration project which is funded and directed by counties. The primary purpose of this INN Tech Suite Project is to increase access to mental health care and support and to promote early detection of mental health symptoms, or even predict the onset of mental illness. Through the utilization of multifactor devices, such as smart phones, tablets and laptops, as a mode of connection and treatment to reach people who are likely to go either unserved or underserved by traditional mental health care, project services will focus on prevention, early intervention, family and social support to decrease the need for psychiatric hospital and emergency care service.
- **LA County Media Campaign** – CalMHSA will continue its statewide efforts in the development of cultural adaptation and customization of marketing assets, and advertisements in an effort to support a Prevention and Early Intervention media campaign focused on Mental Health Month (May 2018). As part of this effort the key focus will be on breaking down barriers to treatment by engaging with stakeholders using new and innovative messaging and a call to action.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

- **CCBHS Loan Forgiveness Program** – The Program is designed to pay employee loan debt incurred by current or prospective employees or contractors who fill positions that Contra Costa County has deemed to be a) hard to fill or retain, or b) part of a mental health career path. The participant (County) will identify to CalMHSA the names of current or prospective employees or contractors, their respective employee lending institutions, employee loan amounts owed, and the schedule and amount to be paid to the employee lending institutions. Upon verification by Participant of an employee's continued eligibility for loan forgiveness, CalMHSA will make payments directly to the employee's identified employee lending institution(s), and verify funds receipt by the employee lending institution and the reduced balance owed by the employee.
- **AB1299** – California law allows foster children who are placed outside of their county of original jurisdiction to access specialty mental health services in a timely manner through “presumptive transfer”. This requires the transfer of funds between counties. CalMHSA is working with counties to analyze the use of CalMHSA as a fiscal agent (CalMHSA) to more efficiently and cost-effectively process payments between counties.

Under the Welfare and Institution Code § 14717.1, responsibility for providing or arranging for specialty mental health services shall promptly transfer from the county of original jurisdiction to the county in which a foster child resides, subject to any exceptions established pursuant to that section. This is known as “presumptive transfer.” Counties have agreed that the county of original jurisdiction (sending county) remains responsible for reimbursing the receiving county for specialty mental health services provided or arranged by the receiving county. Under this program, CalMHSA acts as a fiscal agent for participating counties to make and receive transfer payments of county match dollars. Counties will begin participating in this program July 1, 2018.

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

D. FUND ACCOUNTING

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

Governmental Fund:

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

E. CASH AND CASH EQUIVALENTS

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

F. INCOME TAXES

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

G. USE OF ESTIMATES

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

H. FUND BALANCE

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

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

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

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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

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

2. CASH AND INVESTMENTS

A. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash in banks	\$ 1,449,989	\$ 64,396
Money Market Account	15,113,363	1,471
LAIF	<u>3,351,769</u>	<u>6,243,566</u>
	<u>\$ 19,915,121</u>	<u>\$ 6,309,433</u>

Cash in Bank

As of June 30, 2018 and 2017, CalMHSA's balances per the bank of \$1,773,721 and \$193,756 respectively, are insured by the Federal Depository Insurance Corporation up to \$250,000. Section 53652 of the California Governmental Code requires financial institutions to secure deposits made by governmental units in excess of insured amounts, by the pledging of governmental securities as collateral. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by governmental units.

Money Market Account

As of June 30, 2018, CalMHSA's had cash in a money fund managed by Morgan Stanley Smith Barney LLC.

Local Agency Investment Fund

California Mental Health Services Authority places certain funds with the State of California's Local Agency Investment Fund (LAIF). The District 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 District's investment in this pool is reported in the accompanying financial statements based upon the District'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). 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. At June 30, 2018, the interest rate was 1.7%.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

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

B. INVESTEMENTS

Investments are reported at fair value.

Changes in fair value that occur during a fiscal year and any gains or losses realized upon the liquidation, maturity, or sale of investments are recognized as net increase (decrease) in investment fair values reported for that fiscal year. Investment income consists primarily of interest earnings on investments held by CalMHSA.

Disclosures Relating to Interest Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that CalMHSA manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of CalMHSA's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity. For purposes of the schedule shown below, any callable securities are assumed to be held to maturity.

Maturity Distribution of Investments

Investment Type	Fair Value	Investment Maturities	
		< 1yr	1-3 yrs
US Treasury	\$ 8,222,735	\$ 8,222,735	\$ -
Federal Agencies	\$ 2,730,918	\$ 2,730,918	\$ -
Corporate Fixed Income	1,997,790	1,997,790	-
Total	<u>\$ 12,951,443</u>	<u>\$ 12,951,443</u>	<u>\$ -</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

Disclosures Relating to Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below are Standard & Poor’s ratings of the securities held in CalMHSA’s portfolio by investment type, at the end of the current fiscal year.

Investment Type	Total	AA+	AAA	AA-	AA
US Treasury	\$ 8,222,735	\$ -	\$ 8,222,735	\$ -	\$ -
Federal Agencies	2,730,918	2,730,919	-	-	-
Corporate Notes	1,997,790	499,735	-	998,965	499,090
Total	\$ 12,951,443	\$ 3,230,654	\$ -	\$ 998,965	\$ 499,090

Concentration of Credit Risk - The investment policy of CalMHSA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total Authority investments are as follows:

Concentration of Credit Risk

Investment	Investment Type	Fair Value	% of Portfolio
US Treasury	Federal Agencies	\$ 8,222,735	63%
FNMA	Federal Agencies	\$ 997,270	8%
FHLB	Federal Agencies	\$ 1,285,372	10%

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code and CalMHSA’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure CalMHSA’s deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

3. RECEIVABLES

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

4. CONTRACT SERVICES

CalMHSA does not have any employees and contracts for all necessary services. This includes contracts for the development and implementation of prevention and early intervention (PEI) programs on a statewide and regional basis.

5. SUBSEQUENT EVENTS/CONTINGENT LIABILITY

Department of Health Care Services Report on the Limited Review – California Mental Health Services Authority – Mental Health America of California as Subcontractor of CalMHSA.

On August 1, 2016, the California Department of Health Care Services (DHCS) issued a report on the limited review concerning the performance of Mental Health America of California (MHAC) under an expense-reimbursement contract with CalMHSA. The final audit report showed an adjustment of \$349,197.

On September 2, 2016, CalMHSA responded by letter, explaining it did not believe the audit report justified the adjustments it proposed. CalMHSA cited the absence of any published standards, application of unreasonable standards, citation to inapplicable Medicaid statutes, and consideration of only a part of the entire contract period. Should there be any attempt by DHCS to collect the adjustment amount from CalMHSA, CalMHSA will contest the claim vigorously. CalMHSA is unable to predict the outcome of this matter, and at this time cannot reasonably estimate the exposure on this matter. In its contract with CalMHSA, MHAC agreed to repay CalMHSA if the amounts paid to MHAC were determined not to be reimbursable by CalMHSA or an appropriate state agency. Further, the contract provided that if there is a conflict between a state audit and a CalMHSA audit, the state audit would take precedence.

On a letter dated October 26, 2016, DHCS made a demand of CalMHSA for \$349,197, which CalMHSA is disputing and taking to mediation.

In November 2017, CalMHSA began the informal hearing process with the DHCS. On August 13, 2018, DHCS issued a Report of Findings reducing the disallowances by \$9,033

A liability has been booked in the financial statements for \$350,000 as of June 30, 2018 for legal defense and a small estimate related to the disallowance.

CalMHSA's management evaluated its 2018 financial statements for subsequent events through January 18, 2019, the date the financial statements were available to be issued. Management is not aware of any other subsequent events, other than that noted above, that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:				
SHB Funding	\$ 627,912	\$ 627,912	\$ 549,400	\$ (78,512)
Sustainability Funding	5,160,037	7,730,037	8,206,539	476,502
Public/Private Partnership Development	500,005	500,005	384,104	(115,901)
Suicide Prevention	636,375	543,834	664,292	120,458
Loan Forgiveness Program	-	300,000	300,000	-
Non budgeted revenues	-	-	34,462,631	34,462,631
Total Revenue	<u>6,924,329</u>	<u>9,701,788</u>	<u>44,566,966</u>	<u>34,865,178</u>
EXPENDITURES/EXPENSES:				
Program Expenses	6,587,764	9,197,596	17,987,492	8,789,896
General and Administration	681,834	736,582	531,437	205,145
Total Expenditures/Expenses	<u>7,269,598</u>	<u>9,934,178</u>	<u>18,518,929</u>	<u>8,995,041</u>
Change in Fund Balance/Net Position	(345,269)	(232,390)	26,048,037	25,870,137
FUND BALANCE/NET POSITION				
Beginning of year	<u>5,256,378</u>	<u>5,256,378</u>	<u>5,256,378</u>	<u>-</u>
End of year	<u>\$ 4,911,109</u>	<u>\$ 5,023,988</u>	<u>\$ 31,304,415</u>	<u>\$ 25,870,137</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Budget Variance Favorable (Unfavorable)</u>
REVENUES:				
SHB Funding	\$ 652,252	\$ 652,252	\$ 550,802	\$ (101,450)
Sustainability Funding	5,145,910	5,145,910	5,437,065	291,155
Public/Private Parntership Development	500,000	500,000	448,230	(51,770)
Suicide Prevention	625,000	625,000	636,376	11,376
Non budgeted revenues	-	-	391,784	391,784
Total Revenue	<u>6,923,162</u>	<u>6,923,162</u>	<u>7,464,257</u>	<u>541,095</u>
EXPENDITURES/EXPENSES:				
Program Expenses				
PEI Program Services	7,760,272	7,760,272	6,353,141	1,407,131
SHB Program Funding	624,819	624,819	214,208	410,611
Fiscal Modernization	80,930	80,930	60,320	20,610
Public/Private Parntership Development	189,696	189,696	195,000	(5,304)
Plumas Wellness Center	610,269	610,269	481,312	128,957
Suicide Prevention	735,289	735,289	550,676	184,613
Tech Asst/Capacity Building	197,176	197,176	-	197,176
Non budgeted expenses	-	-	125,189	(125,189)
Total Project Expense	<u>10,198,451</u>	<u>10,198,451</u>	<u>7,979,846</u>	<u>2,218,605</u>
General and Administration	<u>631,574</u>	<u>631,574</u>	<u>718,831</u>	<u>(87,257)</u>
Total Expenditures/Expenses	<u>10,830,025</u>	<u>10,830,025</u>	<u>8,698,677</u>	<u>2,131,348</u>
Change in Fund Balance/Net Position	(3,906,863)	(3,906,863)	(1,234,420)	(1,590,253)
FUND BALANCE/NET POSITION				
Beginning of year	<u>6,490,798</u>	<u>6,490,798</u>	<u>6,490,798</u>	<u>-</u>
End of year	<u>\$ 2,583,935</u>	<u>\$ 2,583,935</u>	<u>\$ 5,256,378</u>	<u>\$ (1,590,253)</u>

OTHER AUDITOR'S REPORT



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Mental Health Services Authority
Rancho Cordova, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund, and the aggregate remaining information of California Mental Health Services Authority, as of and for the years ended June 30, 2018 and 2017, 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 January 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered California Mental Health Services Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the California Mental Health Services Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of California Mental Health Services Authority's internal control.

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

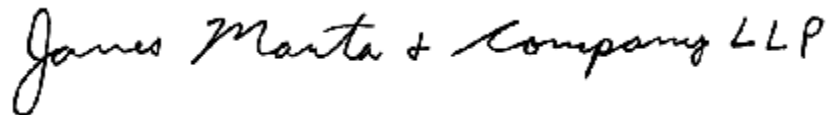
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether California Mental Health Services Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. This report is intended solely for the information and use of Management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

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

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
January 18, 2019