

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

FOR THE FISCAL YEARS ENDED
JUNE 30, 2012 AND 2011**



California Mental Health Services Authority

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JUNE 30, 2012

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California Mental Health Services Authority

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James Marta & Company

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Mental Health Services Authority
Sacramento, California

We have audited the accompanying financial statements of the governmental activities and major fund of California Mental Health Services Authority ("CalMHSA") as of and for the fiscal years ended June 30, 2012 and 2011, which collectively comprise CalMHSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CalMHSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the State Controller's Minimum Audit Requirements for California Special Districts, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of California Mental Health Services Authority as of June 30, 2012 and 2011, and the related changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

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

James Marta & Company

James Marta & Company
Certified Public Accountants
November 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

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, 2012 and 2011. The discussion should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Overview of CalMHSA

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

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

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

CalMHSA is an independent administrative and fiscal government agency focused on the efficient delivery of California mental health projects. On June 11, 2009, six California counties established CalMHSA as a Joint Powers Authority (JPA) to jointly develop, fund and implement mental health services, projects and educational programs at the state, regional and local levels. California counties may choose to implement the three statewide PEI programs through CalMHSA. As of June 30, 2012, 50 members (48 counties, one city and one JPA) work together to develop, fund and implement PEI programs, on a statewide or regional basis that conform with the “Guidelines for PEI Statewide Programs” issued by the MHSOAC. Total funding available for the CalMHSA members was \$146.8 million.

CalMHSA is headed by a separate Board of Member Counties and an Executive Committee comprised of officers and Statewide Regional Representatives. It employs the administrative firm, 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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

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

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

On April 15, 2010, CalMHSA executed a contract with the California Department of Mental Health (CDMH) for an amount not to exceed \$160 million. Specifically CalMHSA will, consistent with the requirements of the Mental Health Services Act (MHSA) and as approved by the Mental Health Services Oversight and Accountability Commission (MHSOAC) and CDMH, develop and implement Prevention and Early Intervention (PEI) programs, on a statewide or regional basis that conform with the "Guidelines for PEI Statewide Programs" issued by the MHSOAC and the three State Strategic Plans. The purposes of these programs will be reducing suicides, eliminating stigma and discrimination related to mental illness, and promoting student mental health. This contract has been funded exclusively from funds in the "PEI State-Administered Projects Planning Estimates", now called the "PEI State-Administered Component Allocations", published on September 11, 2008. The term of this contract is April 15, 2010 through June 30, 2014. In June 2012, the contract was transferred to the California Department of Healthcare Services.

Guiding Principles for Budget Development

The operations of CalMHSA included in these Financial Statements are:

- Technical Assistance/Capacity Building - \$339,600
- PEI Statewide Programs – Phase I – PEI Statewide Planning (5%) - \$6.8 Million
- PEI statewide Programs – Phase II – PEI Statewide Program Implementation - \$129 Million
- PEI Statewide Programs – First Amendment to the Implementation Work Plan - \$8.2 Million
- PEI Statewide Programs – Plan Update - \$14.2 Million¹

Technical Assistance/Capacity Building

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

PEI Statewide Programs

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

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

1. CalMHSA's allocation of funding is defined with certain limits and the maximum percent by component are (CDMH Information Notice No. 10-06 defines Phase I and Phase II):
 - a. 5% Planning – Phase I funds
 - b. 15% Indirect Administrative Costs (inclusive of 7.5% of cost of evaluation) – Phase I
 - c. 80% Direct Service (inclusive of the required 10% operating reserve) – Phase I
2. CalMHSA, at time of budget development had 29 member counties and 6 projected county members.
 - a. Total projected funding - \$136 Million
 - b. Phase I – \$6.8 Million
 - c. Phase II - \$129 Million
3. The JPA Agreement legally binds the JPA to the limit of funding by members and no cost overruns allowed. Thus the contingency of funding (operating reserve of 10%) is critical to the process.
4. We have utilized these maximum allocations as benchmarks, as well as defining limits for budget and procurement. It is, however, the intent of CalMHSA and its members to maximize the delivery of services. As a result this allocation shall be refined as more facts develop on an on-going basis.

From February 2011, when the MHSOAC approved the CalMHSA Implementation Work Plan, to June 2012, 13 counties and cities beyond those included in the original work plan elected to participate in CalMHSA PEI statewide projects. New participation resulted in an additional \$7.7 million of program funds for expansion into new communities.

First Amendment to the Statewide PEI Implementation Work Plan

Suicide Prevention (SP): Increased by approximately \$1.9 million (25% of \$7.7 million).

Regional Local Capacity Building Programs: As new communities participate in CalMHSA, many regional SP providers are being asked to serve additional counties and/or cities. Regional programs are augmented to serve an expanded geographic and/or racial/ethnic/cultural and underserved population.

¹ Funding includes the previously approved contingency/operating reserve (\$9,662,072) and planning funds (\$2,869,658), and funds resulting from changes in CalMHSA participation by counties and cities (\$1,698,675).

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Student Mental Health Initiative (SMHI): Increased by approximately \$2.9 million (37.5% of \$7.7 million).

Higher Education: California Community Colleges (CCC): SMHI Higher Education funds were allocated equally to each system. The CCC serves a student population that is 6 to 11 times that of the California State University and University of California systems, and admits “any student capable of benefiting from instruction.” The CCC contract was augmented in order to serve a larger student population than other higher education systems and to serve an expanded geographic and/or racial/ethnic/cultural and underserved population.

Stigma and Discrimination Reduction (SDR): This amendment set aside approximately \$2.9 million (37.5% of \$7.7 million) for Work Plan Amendment #2 (planned for Fall 2012). Eight out of 10 SDR projects are in implementation; the other two projects are in the initial stages of implementation. Program enhancements were delayed until the Second Amendment of the Work Plan, so that they could be informed by implementation data.

Additional Deliverable: This amendment includes a deliverable as part of our statewide evaluation contract, which includes the Development of a Statewide Evaluation Framework (in collaboration with CalMHSA and the MHSOAC), with revisions to the Evaluation Framework in response to input. A PEI statewide evaluation framework was developed which overlaps with the three CalMHSA statewide PEI project evaluations but differs in that it includes the full range of California’s PEI programs. It will also be used prospectively to evaluate the impact of the programs over time. Like the CalMHSA PEI statewide projects evaluation, it prioritizes the outcomes specified in the Mental Health Services Act.

Plan Update

An update to the CalMHSA Statewide PEI Implementation Work Plan was created in August 2012 in order to expeditiously shift available funding into program activities. Funding included the previously approved contingency/operating reserve (\$9,662,072) and planning funds (\$2,869,658), and funds resulting from changes in CalMHSA participation by counties and cities (\$1,698,675). In total, the CalMHSA Plan Update increased program funding by \$14,230,405.

Within each initiative, CalMHSA staff applied the key principles to determine the utilization of program funds. Based on Key Principle #1, newly available program funds were allocated to Suicide Prevention (25%); Stigma and Discrimination Reduction (37.5%); and Student Mental Health (37.5%) as follows:

Suicide Prevention (SP): Increased by \$3.6 million (25% of \$14.2 million).

Student Mental Health Initiative (SMHI): Increased by \$5.3 million (37.5% of \$14.2 million).

Stigma and Discrimination Reduction (SDR): Increased by \$5.3 million (37.5% of \$14.2 million). In addition, funding was increased by the \$2.9 million that was set aside during the First Work Plan Amendment (approved by the MHSOAC on March 23, 2012). Overall, SDR programs were increased by \$8.2 million.

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MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

The chart below includes approved funding allocations to date (the budget from the CalMHSA Implementation Work Plan and additional funding from the First Work Plan Amendment) and proposed changes (program funds made available as part of the CalMHSA Plan Update).

Funding	5% Phase I Planning	71% Program/Direct	9% Contingency Reserve¹	7.5% Evaluation²	7.5% Admin²	100% Total
Work Plan Budget	\$6,810,520	\$97,322,330	\$11,645,988	\$10,215,780	\$10,215,780	\$136,210,398
First WP Amendment	\$409,155	\$5,810,001 ³	\$736,479 ³	\$613,733	\$613,733	\$8,183,100
Subtotal	\$7,219,675	\$103,132,331	\$12,382,467	\$10,829,513	10,829,513	\$144,393,498
Changes in CalMHSA membership	\$119,625	\$1,698,675 ^{4,7}	\$215,325	\$179,438	\$179,438	\$2,392,500
CalMHSA Plan Update	\$2,869,658 moved to program/direct 	\$2,869,658 ⁵ + \$9,662,072 ⁶ = \$12,531,730 ⁷	\$9,662,072 moved to program/direct 			
Revised Total	\$4,469,642	\$117,362,736	\$2,935,720	\$11,008,950	\$11,008,950	\$146,785,998
Revised Percentage	3.0%	80.0%	2.0%	7.5%	7.5%	100%

1. Originally, the Contingency Reserve was calculated as 9% of the Approved Plan. It is the intent of CalMHSA to maximize the delivery of services. In this Plan Update, \$9,662,072 of this reserve will now be utilized for program activities.
2. The maximum allocation permitted by DMH for Indirect Administration services is 15%. Included in this 15% is the requirement to provide an evaluation of programs.
3. These dollars differ slightly from those shared during the First Work Plan Amendment; this change is due to the program/direct percentage being calculated as 71%, based on the approved plan.
4. Changes in CalMHSA membership and the assignment of funds by counties and cities resulted in an additional \$1,698,675 for program funds.
5. Based on the fiscal year 12-13 CalMHSA Budget approved by the CalMHSA Board on June 14, 2012, planning dollars (\$2,869,658) were moved to fund program/direct activities. The new overall percentage of funds dedicated to planning is 3.0%.
6. Contingency reserve dollars (\$9,662,072) were moved to fund program/direct activities. The new overall percentage of funds dedicated to the contingency reserve is 2.0%.
7. The total increase in program funds is \$14,230,405 (Shift planning and contingency reserve: \$12,531,730, plus changes in CalMHSA membership: \$1,698,675).

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

Budget Highlights

Since the development of the initial budget, membership has exceeded management's expectations and is currently at 50 members. As of October 2012, member counties have directed \$146,786,000 (\$160 million is statewide total) to CalMHSA.

Financial Highlights for the Fiscal Year Ended June 30, 2012

Operating revenue was \$41.0 million in fiscal year 2012 mainly comprising current year funding for PEI Statewide Programs

Operating expenses were \$17.3 million in fiscal year 2012. This was a \$15.6 million increase compared to 2011. Increased planning, program and evaluation expenses for the implementation of the Prevention and Early Intervention (PEI) statewide initiatives was the main reason for the increase in total expenses. During the fiscal year, CalMHSA entered into 28 contracts with 28 program partners. Expenditures on these contracts, as of June 30, 2012, were \$14,457,311.

Cash and cash equivalents was \$39.4 million as of June 30, 2012 compared to \$91.4 million as of June 30, 2011. The \$52 million decrease compared to prior fiscal year mainly relates to the \$91.3 million of cash and cash equivalents that were invested in various bonds and other short term instruments offset by approximately \$39 million in positive cash flow for the excess of PEI funding over expenditures.

Total accounts receivable were \$815,493 as of June 30, 2012 compared to \$13.2 million as of June 30, 2011. The collection of prior year PEI funding revenue was the main reason for the decrease in accounts receivable.

Description of the Basic Financial Statements

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

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

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

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

Analysis of Overall Financial Position and Results of Operations

The following sections provide additional details on the Authority's financial position and activities for fiscal years 2012 and 2011, and a look ahead at economic conditions that may affect CalMHSA in the future.

I. Statement of Net Assets

	2012	2011	2010		% Change Over Prior Year
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 39,436,531	\$ 91,445,563	\$ 154,611		-57%
Investments - Current Portion	29,399,596	-	-	(1)	NM
Contractor Prepayments	3,369,932	-	-	(1)	NM
Accounts receivable	815,493	13,234,744	3,404,870		-94%
Total Current Assets	<u>73,021,552</u>	<u>104,680,307</u>	<u>3,559,481</u>		-30%
Investments - Noncurrent	<u>61,299,798</u>	-	-	(1)	NM
Total Assets	<u>134,321,350</u>	<u>104,680,307</u>	<u>3,559,481</u>		28%
Current Liabilities:					
Accounts payable	5,445,801	72,286	-		7434%
WET Program Funding	155,220	-	-	(1)	NM
Total Current Liabilities	<u>5,601,021</u>	<u>72,286</u>	-		7648%
Net assets	<u>\$ 128,720,329</u>	<u>\$ 104,608,021</u>	<u>\$ 3,559,481</u>		23%

(1) Not measurable

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

CalMHSA's Pool Assets

Total assets increased by \$29.6 million to \$134.3 million at June 30, 2012. For the current fiscal year, CalMHSA collected approximately \$41 million in Prevention and Early Intervention (PEI) funding and paid approximately \$12 million in operating expenses resulting in a \$29.6 million increase in overall assets.

\$38.9 million is held in the Local Agency's investment Fund (LAIF), an external investment pool managed by the State Treasurer's Office and \$468,668 is held by Morgan Stanley Smith Barney in a money fund. The effective yield at June 30, 2012 was .36% and .01% for LAIF and the Money Fund, respectively.

CalMHSA's cash and cash equivalents are recorded at fair value as of June 30, 2012. The LAIF balance included a \$47,403 unrealized market gain.

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

	2012	2011	2010		% Change Over Prior Year
Operating revenues	\$ 41,034,000	\$ 102,616,050	\$ 3,825,214		-60%
Operating expenses:					
Program expenses	16,422,883	1,675,824	265,733		880%
Indirect expenses	888,756	-	-	(1)	NM
Total operating expenses	<u>17,311,639</u>	<u>1,675,824</u>	<u>265,733</u>		933%
Operating income	23,722,361	100,940,226	3,559,481		-76%
Nonoperating income	<u>389,947</u>	<u>108,314</u>	<u>-</u>	(1)	NM
Increase in net assets	24,112,308	101,048,540	3,559,481		-76%
Net assets beginning of year	<u>104,608,021</u>	<u>3,559,481</u>	<u>-</u>	(1)	NM
Net assets end of year	<u><u>\$ 128,720,329</u></u>	<u><u>\$ 104,608,021</u></u>	<u><u>\$ 3,559,481</u></u>		23%

(1) Not measurable

Revenues (Operating and Nonoperating)

For the fiscal year ended, June 30, 2012, total revenue (operating and nonoperating) decreased by \$61.6 million. At June 30, 2012 50 counties were members of CalMHSA. Seven of the counties joined CalMHSA during the fiscal year ended June 30, 2012.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

Expenses

For the fiscal year ended June 30, 2012, total expenses increased by \$15.6 million. CalMHSA began the program phase for the implementation of the Prevention and Early Intervention (PEI) statewide initiatives and was the main reason for the increase in total expenses.

Economic Outlook

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

BASIC FINANCIAL STATEMENTS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 39,436,531	\$ 91,445,563
Investments	34,325,521	-
Accounts receivable	815,493	13,234,744
Contractor prepayments	3,369,932	-
Total Current Assets	<u>77,947,477</u>	<u>104,680,307</u>
Non Current Assets		
Investments	56,373,872	-
Total Assets	<u>\$ 134,321,350</u>	<u>\$ 104,680,307</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 5,445,801	\$ 72,286
WET Program funding	155,220	-
Total Current Liabilities	<u>5,601,021</u>	<u>72,286</u>
FUND BALANCE / NET ASSETS		
Restricted	<u>128,720,329</u>	<u>104,608,021</u>
Total Liabilities and Fund Balance/Net Assets	<u>\$ 134,321,350</u>	<u>\$ 104,680,307</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
REVENUES:		
Technical Assistance/Capacity Building	\$ 250,400	\$ -
PEI Statewide Programs - Planning	2,038,430	5,130,740
PEI Statewide - Program Implementation	38,730,170	97,484,060
Fees	15,000	1,250
Investment income	389,947	108,314
Total Revenue	<u>41,423,947</u>	<u>102,724,364</u>
EXPENDITURES/EXPENSES:		
Program Expenses		
Technical Assistance/Capacity Building	545,926	14,007
PEI Statewide Programs	13,492,750	-
Evaluation Expense	1,616,254	-
Planning Expense	906,616	1,661,817
Total Project Expense	<u>16,561,546</u>	<u>1,675,824</u>
General and Administration	<u>750,093</u>	<u>-</u>
Total Expenses	<u>17,311,639</u>	<u>1,675,824</u>
 Change in Fund Balance/Net Assets	 24,112,308	 101,048,540
FUND BALANCE/NET ASSETS		
Beginning of year	<u>104,608,021</u>	<u>3,559,481</u>
End of year	<u>\$ 128,720,329</u>	<u>\$ 104,608,021</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

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, 2012 and 2011, there were 50 and 39 member counties, respectively.

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, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY (Continued)

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

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

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

B. BASIS OF PRESENTATION

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

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

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

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

Governmental Fund Financial Statement

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

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

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

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

D. FUND ACCOUNTING

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

Governmental Fund:

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

E. CASH AND CASH EQUIVALENTS

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

F. INCOME TAXES

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

G. USE OF ESTIMATES

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

H. FUND BALANCE

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

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

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

H. FUND BALANCE (Continued)

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

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

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

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

2. CASH AND INVESTMENTS

A. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Cash in banks	\$ 54,323	\$ 4,619
Money Market Account	468,668	41,503,362
LAIF	38,913,540	49,937,582
	<u>\$ 39,436,531</u>	<u>\$ 91,445,563</u>

Cash in Bank

As of June 30, 2012 and 2011, CalMHSA's balances per the bank of \$54,323 and \$4,619 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, 2012, CalMHSA's had cash in a money fund managed by Morgan Stanley Smith Barney LLC.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

2. CASH AND INVESTMENTS (Continued)

Local Agency Investment Fund

CalMHSA places certain funds with the State of California's Local Agency Investment Fund (LAIF). The Authority is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. These pooled funds are carried at cost, which approximates market value and is reported in the accompanying financial statements based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. The monies held in the pooled investment funds are not subject to categorization by risk category. LAIF is currently unrated and has an average life of 242 days.

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

B. Investments

Investments are reported in the accompanying statement of net assets 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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

B. Investments (continued)

Maturity Distribution of Investments

Investment Type	Fair Value	Investment Maturities	
		< 1yr	1-3 yrs
Federal Agencies	\$ 45,151,555	\$ 4,981,878	\$ 40,169,676
Corporate Notes	45,547,839	29,343,643	16,204,196
Total	<u>\$ 90,699,394</u>	<u>\$ 34,325,521</u>	<u>\$ 56,373,872</u>

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.

Standard & Poor Ratings as of June 30, 2012

Investment Type	Total	AAA	AA	A
Federal Agencies	\$45,151,555	\$45,151,555	\$ -	\$ -
Corporate Notes	45,547,839	-	2,990,795	42,557,044
Total	<u>\$90,699,394</u>	<u>\$45,151,555</u>	<u>\$2,990,795</u>	<u>\$42,557,044</u>

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:

Investment	Investment Type	Fair Value	% of Portfolio
Federal National Mortgage Association	Federal Agencies	\$19,435,325	21%
Federal Home Loan Mortgage Corporation	Federal Agencies	\$15,832,101	17%
Toyota Motor Credit	Corporate Notes	\$ 4,999,550	5%
Nordea North America Inc.	Corporate Notes	\$ 4,999,100	5%
US Bank N.A	Federal Agencies	\$ 4,996,950	5%
Bank of Nova Scotia	Federal Agencies	\$ 4,996,450	5%
WestPac Banking Company	Corporate Notes	\$ 5,008,250	5%
PepsiCo Inc	Corporate Notes	\$ 4,961,484	5%
Federal Home Loan Bank Consolidated Bonds	Federal Agencies	\$ 4,902,250	5%
Federal Home Loans Banks	Federal Agencies	\$ 4,981,878	5%

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

B. Investments (continued)

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.

3. ACCOUNTS RECEIVABLE

The accounts receivable balance represents interest, fees and amounts due for counties who have become members of CalMHSA, but whose funds have not yet been released by the California Department of Mental Health Services as of June 30, 2012.

4. CONTRACT SERVICES

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

5. SUBSEQUENT EVENTS

CalMHSA's management evaluated its 2012 financial statements for subsequent events through November 26, 2012, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:			
Technical Assistance/Capacity Building	\$ -	\$ 250,400	\$ 250,400
PEI Statewide Programs - Planning	1,702,630	2,038,430	335,800
PEI Statewide - Program Implementation	32,349,969	38,730,170	6,380,201
Fees	-	15,000	15,000
Investment income	-	389,947	389,947
Total Revenue	<u>34,052,599</u>	<u>41,423,947</u>	<u>7,371,348</u>
EXPENDITURES/EXPENSES:			
Program Expenses			
Technical Assistance/Capacity Building	303,573	545,926	(242,353)
PEI Statewide Programs	40,000,000	13,492,750	26,507,250
Evaluation Expense	2,500,000	1,616,254	883,746
Planning Expense	2,380,000	906,616	1,473,384
Total Project Expense	<u>45,183,573</u>	<u>16,561,546</u>	<u>28,622,027</u>
General and Administration	<u>5,200,000</u>	<u>750,093</u>	<u>-</u>
Total Expenses	<u>50,383,573</u>	<u>17,311,639</u>	<u>28,622,027</u>
Change in Fund Balance/Net Assets	(16,330,974)	24,112,308	(21,250,679)
FUND BALANCE/NET ASSETS			
Beginning of year	<u>104,608,021</u>	<u>104,608,021</u>	<u>-</u>
End of year	<u>\$ 88,277,047</u>	<u>\$ 128,720,329</u>	<u>\$ (21,250,679)</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, 2011

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:			
Technical Assistance/Capacity Building	\$ 100,000	\$ -	\$ (100,000)
PEI Statewide Programs - Planning	4,086,312	5,130,740	1,044,428
PEI Statewide - Program Implementation	11,318,977	97,484,060	86,165,083
Fees	-	1,250	1,250
Investment income	-	108,314	108,314
Total Revenue	<u>15,505,289</u>	<u>102,724,364</u>	<u>87,219,075</u>
EXPENDITURES/EXPENSES:			
Program Expenses			
Technical Assistance/Capacity Building	100,000	14,007	85,993
PEI Statewide Programs	10,000,000	-	10,000,000
Evaluation Expense	-	-	-
Planning Expense	4,086,312	1,661,817	2,424,495
Total Project Expense	<u>14,186,312</u>	<u>1,675,824</u>	<u>12,510,488</u>
General and Administration	<u>1,318,977</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>15,505,289</u>	<u>1,675,824</u>	<u>12,510,488</u>
Change in Fund Balance/Net Assets	-	101,048,540	74,708,587
FUND BALANCE/NET ASSETS			
Beginning of year	<u>3,559,481</u>	<u>3,559,481</u>	<u>3,559,481</u>
End of year	<u>\$ 3,559,481</u>	<u>\$ 104,608,021</u>	<u>\$ 78,268,068</u>

OTHER AUDITOR'S REPORT



James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

Board of Directors
California Mental Health Services Authority
Sacramento, California

We have audited the financial statements of California Mental Health Services Authority (CalMHSA) as of and for the year ended June 30, 2012 and 2011, and have issued our report thereon dated November 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

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

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

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

James Marta & Company
Certified Public Accountants
November 26, 2012