

**CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2014 AND 2013**



California Mental Health Services Authority

Board of Directors

JUNE 30, 2014

Executive Committee

Maureen F. Bauman, LCSW	President	Placer County
Scott Gruendl, MPA	Vice President	Glenn County
CaSonya Thomas, MPA, CHC	Secretary	San Bernardino County
Wayne Clark, PhD	Treasurer	Monterey County
Michael Kennedy, MFT	Bay Area Region	Sonoma County
Jo Robinson	Bay Area Region	San Francisco County
Vic Singh	Central Region	San Joaquin County
Rita Austin, LCSW	Central Region	Tuolumne County
Marvin Southard, PhD	Los Angeles Region	Los Angeles County
William Arroyo, MD	Los Angeles Region	Los Angeles County
Mary Hale	Southern Region	Orange County
Alfredo Aguirre, LCSW	Southern Region	San Diego County
Karen Stockton, PhD, MSW	Superior Region	Modoc County
Donnell Ewert, MPH	Superior Region	Shasta County
Jerry Wengerd, LCSW	At-Large Member	Riverside County

Board Members

Manuel Jimenez	Alameda County	Robin Roberts, MFT	Mono County
Steven Grolnic-McClurg, LCSW	City of Berkeley	William J Carter	Napa County
Dorian Kittrell	Butte County	Michael Heggarty, MFT	Nevada County
Terence M. Rooney, PhD	Colusa County	Uma Zykofsky, LCSW	Sacramento County
Cynthia Belon, LCSW	Contra Costa County	Allan Yamamoto, LCSW	San Benito County
Barbara Pierson	Del Norte County	Anne Robin, LMFT	San Luis Obispo
Don Ashton	El Dorado County	Stephen Kaplan	San Mateo County
Dawan Utecht	Fresno County	Dr. Takashi Wada, MD, MPH	Santa Barbara County
Barbara LaHaie	Humboldt County	Nancy Pena, PhD	Santa Clara County
Michael W. Horn, MFT	Imperial County	Erik Riera, Med, CAS, MBA	Santa Cruz County
Gail Zweir, PhD	Inyo County	Terry Barber	Siskiyou County
Bill Walker	Kern County	Halsey Simmons, MFT	Solano County
Mary Anne Ford Sherman, MA	Kings County	Madelyn Schlaepfer, PhD	Stanislaus County
Linda Morris	Lake County	Tony Hobson	Sutter-Yuba County
Pamela Grosso	Lassen County	Jesse H. Duff	Tri-City Mental Health Center
Dennis P. Koch, MPA	Madera County	Noel J. O'Neill, MFT	Trinity County
Suzanne Tavano, PHN, PhD	Marin County	Timothy Durick, PsyD	Tulare County
Ann Conrad	Mariposa County	Meloney Roy, LCSW	Ventura County
Stacey Cryer	Mendocino County	Karen Larsen	Yolo County

California Mental Health Services Authority

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Governmental Fund Balance Sheets – Statements of Net Position	14
Statements of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Net Position – Statements of Activities	15
Notes to the Basic Financial Statements	16
Required Supplementary Information	
Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP) and Actual General Fund – June 30, 2014	25
Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP) and Actual General Fund – June 30, 2013	26
Other Auditor's Report	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27



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, 2014 and 2013, 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, 2014 and 2013, and the respective changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

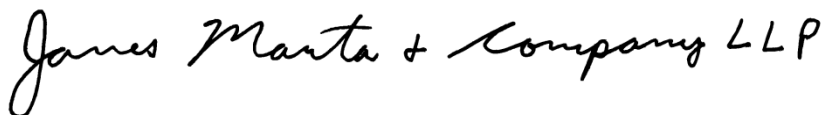
Other Matters

Required Supplementary Information

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014 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
December 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

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, 2014 and 2013. 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 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/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 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. As of June 30, 2014, 52 members (50 counties, one city and one JPA) work together to develop, fund and implement PEI programs, on a statewide or regional basis that conform with the “Guidelines for PEI Statewide Programs” issued by the MHSOAC. Total funding available for the CalMHSA members was \$147 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, 2014 AND 2013

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 the amount not to exceed \$160 million. Specifically CalMHSA will, consistent with the requirements of the Mental Health Services Act (MHSOA) 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.

Guiding Principles for Budget Development

The operations of CalMHSA included in these Financial Statements are:

- Technical Assistance/Capacity Building - \$668,600
- 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 to the specific contract.

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

JUNE 30, 2014 AND 2013

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, is \$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.
 - 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 member 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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

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 six to eleven 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 ten 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).




CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

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.

- 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 			
August 9, 2012 Total	<u>4,469,642</u>	<u>117,362,736</u>	<u>2,935,720</u>	<u>11,008,950</u>	<u>11,008,950</u>	<u>146,785,998</u>
August 9, 2013 Percentage	3.0%	80.0%	2.0%	7.5%	7.5%	100%
Transfer of Administrative Funds		5,000,000			(5,000,000) 	
May 1, 2013 Total	<u>\$4,469,642</u>	<u>\$120,362,736</u>	<u>\$2,935,720</u>	<u>\$11,008,950</u>	<u>\$6,008,950</u>	<u>\$146,785,998</u>
May 1, 2013 Percentage	3.0%	83.4%	2.0%	7.5%	4.1%	100%
San Benito County funds October 29, 2013	\$6,648	\$184,814	\$4,432	\$16,620	\$9,086	\$221,600
December 31, 2013 Total	\$4,476,290	\$122,547,550	\$2,940,152	\$11,025,570	\$6,018,036	\$147,007,598
December 31, 2013 Percentage	3.0%	83.4%	2.0%	7.5%	4.1%	100%

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

-
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 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 FY 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).
 8. \$5 million transferred to PEI Statewide Program from General and Administrative funds based on actual projections of General and Administrative expenditures through June 30, 2015.
 9. San Benito County contributed PEI funds to CalMHSA on October 29, 2013 - \$221,600.

Statewide PEI Program Initial Contract Closeout

The three initial Statewide PEI projects were implemented in June 2011 with an end date of June 2014 with 25 contracts issued to roll out Student Mental Health, Stigma and Discrimination Reduction and Suicide Prevention projects. As such, a comprehensive process was put in place six months prior to end of the contract term, to close out contracts in the most efficient and effective manner.

Effective January 2014 a 10%-15% holdback requirement was put in place intended for contractor invoices received between January 2014 and June 2014. Holding back a percentage from each invoice allows CalMHSA to comply with its fiduciary responsibility to the State, Board, Stakeholders and Communities, to ensure expenditures are in accordance with scopes of work identified in their contracts. In addition to holdbacks, spending patterns were monitored to include verification of high expenses by contractor and approval from contract managers. Upon receiving a final invoice a fiscal reconciliation (from inception) was executed to ensure contract funding amounts were not exceeded. The final fiscal reconciliation report was shared with each contractor to obtain their approval of final outcomes prior to issuing final payments.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

In addition to the fiscal reconciliation the Executive Director, Finance Director, Contract Managers, and JPA Administrative Manager signed off confirming contractor’s compliance of all requirements under their agreements, to include scope of work, general terms and budget terms and conditions.

Budget Highlights

Since the development of the initial budget, membership has exceeded management’s expectations and is currently at 52 members. As of October 2013, member counties have directed \$147 million (\$160 million is statewide total) to CalMHSA. This majority of these revenue was recognized during the fiscal years ended June 30, 2011 and 2012, when counties became official members of CalMHSA and the California Department of Mental Health received the funding request. Expenditures are recorded when they are incurred.

Financial Highlights for the Fiscal Year Ended June 30, 2014

Revenues	\$1.8 million	Operating revenues increased \$708,853 or 94% over the prior year. The rise in revenues was due to increases in funding levels for several existing programs along with funding for a new project in 2014.
Expenses	\$61.6 million	Expenses increased \$22.1 million or 56% over the prior year primarily as a result of payments to contractors for final execution of deliverables.
Assets	\$45.8 million	Assets decreased \$50.8 million over the prior year due to payments to contractors.
Liabilities	\$15.0 million	Liabilities increased \$9.0 million over the prior year due to increased amounts due 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 Position and the Statement of Revenues, Expenses and Changes in Net Position. 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 **Statements of Net Position** presents information on all of CalMHSA’s assets and liabilities, with the difference between the two representing net position (equity). Changes from one year to the next in total net position as presented on the Statement of Net Position are based on the activity presented on the Statement of Revenues, Expenses and Changes in Net Position.

The **Statements of Revenues, Expenses and Changes in Net Position – Statements of Activities** is CalMHSA’s income statement. Revenues earned and expenses incurred during the year are classified as

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

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 2014 and 2013, and a look ahead at economic conditions that may affect CalMHSA in the future.

I. Statements of Net Position

	2014	2013	2012	Change Over Prior Year
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 875,222	\$ 14,250,192	\$ 39,436,531	-94%
Investments - current portion	43,931,766	53,969,429	29,399,596	-19%
Contractor prepayments		368,996	3,369,932	-100%
Accounts receivable	979,768	580,592	815,493	69%
Total Current Assets	45,786,756	69,169,209	73,021,552	-34%
Investments - Noncurrent		27,449,689	61,299,798	-100%
Total Assets	45,786,756	96,618,898	134,321,350	-53%
LIABILITIES				
Current Liabilities				
Accounts payable	14,992,620	6,041,242	5,445,801	148%
Deferred revenue	39,185			100%
WET Program Funding			155,220	
Total Current Liabilities	15,031,805	6,041,242	5,601,021	149%
RESTRICTED NET POSITION	\$ 30,754,951	\$ 90,577,656	\$ 128,720,329	-66%

The above net position is restricted and represents amounts that can be spent only for specific purposes.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

Assets

Total assets decreased by \$50.8 million from \$96.6 million at June 30, 2013 to \$45.8 million at June 30, 2014. The assets were expected to decrease as programs were implemented.

Cash and cash equivalents was \$875,222 as of June 30, 2014 compared to \$14.2 million as of June 30, 2013. The \$13.4 million decrease is a result of the payments to contractors for final execution of deliverables and production of products.

Total accounts receivable were \$979,768 as of June 30, 2014 compared to \$580,592 as of June 30, 2013. The increase is mainly attributable to the new Short Doyle Modernization Project Feasibility Study (SD3), State Hospital Beds (SHB) and Technical Assistance/Capacity Building (TTACB) funding revenue that was billed prior to year end, but funds were not received until after the fiscal year end. These increases were offset by a decrease in the amount of interest receivable. Interest receivable of \$179,907 and \$417,927 are included in the receivable amounts above, respectively.

II. Condensed Statements of Revenues, Expenses and Changes in Net Position – Statements of Activities

	2014	2013	2012	Change Over Prior Year
Operating revenues	\$ 1,462,874	\$ 754,021	\$ 41,034,000	94%
Operating expenses:				
Program expenses	60,500,806	38,241,533	16,422,882	58%
Indirect expenses	1,089,271	1,150,716	888,756	-5%
Total operating expenses	<u>61,590,077</u>	<u>39,392,249</u>	<u>17,311,638</u>	56%
Operating income/(loss)	(60,127,203)	(38,638,228)	23,722,362	56%
Nonoperating income	<u>304,498</u>	<u>495,555</u>	<u>389,946</u>	-39%
Increase/(decrease) in net assets	(59,822,705)	(38,142,673)	24,112,308	
Net position, beginning of year	90,577,656	128,720,329	104,608,021	-30%
Net position, end of year	<u>\$ 30,754,951</u>	<u>\$ 90,577,656</u>	<u>\$ 128,720,329</u>	-66%

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

Revenues (Operating and Nonoperating)

Operating revenue was \$1.5 million in fiscal year 2014 mainly comprised of current year funding for TTACB of \$668,600; SD3 of \$299,167; SHB of \$272,257 and the PEI Statewide Program of \$210,520. Operating revenue is increased \$708,853 or 94% over fiscal year 2013 due to increases in funding for TTACB, SHB and the PEI Statewide Program and because the SD3 program was new this year.

For the fiscal year ended, June 30, 2014, total revenue (operating and nonoperating) increased by \$517,846. At June 30, 2014, 52 counties were members of CalMHSA. One of the counties joined CalMHSA during the fiscal year ended, June 30, 2014.

Expenses

Operating expenses were \$61.6 million in fiscal year 2014. This was a \$22.1 million or 56% increase compared to 2013. During the fiscal year 2012, CalMHSA entered into 28 contracts with 28 program partners. Expenditures on these contracts for fiscal year 2013 were \$36.1 million with a focus on development and dissemination of information. Expenditures for these contracts for fiscal year 2014 were \$58.5 million and focused on final execution of deliverables and production of products.

Economic Outlook

The administration of community and statewide mental health programs in California has undergone significant change. The California Governor's 2012-2013 Budget eliminated the California Department of Mental Health (DMH). The shift in the state's role, with emphasis on local effort in mental health presents additional challenges and opportunities for California counties, CalMHSA and California Behavioral Health Directors Association (CBHDA), for statewide administration of programs. CalMHSA is currently positioned to administer additional Statewide Prevention and Early Intervention (PEI) projects and Statewide/Regional Workforce, Education and Training (WET) projects, and State Hospital Beds Projects. These opportunities would extend beyond the existing contract with DMH, which has been given a no-cost extension to complete run out of the PEI Programs. In April 2014, the CalMHSA Board approved a Phase I Funding Plan to sustain the existing Statewide PEI projects through June 30, 2014. Additionally, in August 2014, the CalMHSA Board approved a Phase II Funding Plan for purpose of continuing work related to PEI projects. Funding for both plans will derive from current county members committing 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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

**California Mental Health Services Authority
Sustainability Strategic Funding Goals**

Sustainability Funding Category	Strategic Funding Goals			
	FY 14/15	FY 15/16	FY 16/17	Total
Contingency	-			-
PEI - Unobligated Carry over	5,766,603			5,766,603
PEI - Interest Earnings	1,032,103	1,032,103	1,032,103	3,096,310
Matching	100,000	1,000,000	1,500,000	2,600,000
Private/Other	100,000	1,000,000	1,500,000	2,600,000
State (1)	7,600,000	10,000,000	15,000,000	30,000,000
Local - County Sustainability Contributions (2)	7,600,000	10,000,000	15,000,000	32,600,000
Total Revenue	22,198,706	23,032,103	34,032,103	76,662,913
Expenditures				
Program	18,413,476	18,700,000	28,050,000	65,163,476
Evaluation	1,083,146	1,100,000	1,650,000	3,833,146
General and Administrative	2,166,291	2,200,000	3,300,000	7,666,291
Total Expenditures	21,662,913	22,000,000	33,000,000	76,662,913
Total Unexpended Funds	535,793	-	-	-

Note: Carry over funds and interest of \$8,862,758, were allocated to FY 14/15 only. Contingency Reserve of \$2,940.152 still maintained and not budgeted for expenditure.

- (1) Funding objective is to establish a state matching process of local – county sustainability contributions.
- (2) Funding goal is to have all counties contribute 7%. The 2016-2017 budget represents approximately 6%.
- (3) The allocation of interest income may change based on necessity.

BASIC FINANCIAL STATEMENTS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 875,222	\$ 14,250,192
Investments- Current Portion	43,931,766	53,969,429
Contractor prepayments	-	368,996
Receivables	<u>979,768</u>	<u>580,592</u>
Total Current Assets	45,786,756	69,169,209
Non Current Assets		
Investments	-	<u>27,449,689</u>
Total Assets	<u>\$ 45,786,756</u>	<u>\$ 96,618,898</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 14,992,620	\$ 6,041,242
Unearned PEI Program funding	<u>39,185</u>	<u>-</u>
Total Current Liabilities	15,031,805	6,041,242
FUND BALANCE / NET POSITION		
Net Postion:		
Restricted		
Tech asst/capacity building	239,597	60,017
Operations	884,807	680,168
PEI funding	29,016,637	89,688,921
WET Program Funding	148,470	148,470
Feasibility Funding	271,130	-
SHB Program Funding	<u>194,310</u>	<u>80</u>
Total Restricted	<u>30,754,951</u>	<u>90,577,656</u>
 Total Liabilities and Fund Balance/Net Position	 <u>\$ 45,786,756</u>	 <u>\$ 96,618,898</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
REVENUES:		
Technical Assistance/Capacity Building	\$ 668,600	\$ 504,711
PEI Statewide Programs - Planning	11,080	-
PEI Statewide - Program Implementation	210,520	-
WET Program Funding	-	155,220
SHB Funding	272,257	94,090
Feasibility Study Funding	299,167	-
Fees	1,250	-
Investment Income	304,498	495,505
Total Revenue	<u>1,767,372</u>	<u>1,249,526</u>
EXPENDITURES/EXPENSES:		
Program Expenses		
Technical Assistance/Capacity Building	467,735	432,523
WET Program Funding	-	6,750
SHB Program Funding	78,027	94,010
Feasibility Study Funding	28,037	-
PEI Statewide Programs	56,504,288	35,391,976
Evaluation Expense	3,049,693	1,908,627
Planning Expense	373,026	407,597
Total Project Expense	<u>60,500,806</u>	<u>38,241,483</u>
General and Administration	<u>1,089,271</u>	<u>1,150,716</u>
Total Expenditures/Expenses	<u>61,590,077</u>	<u>39,392,199</u>
Change in Fund Balance/Net Position	(59,822,705)	(38,142,673)
FUND BALANCE/NET POSITION		
Beginning of year	<u>90,577,656</u>	<u>128,720,329</u>
End of year	<u>\$ 30,754,951</u>	<u>\$ 90,577,656</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

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, 2014 and 2013, there were 50 member counties.

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, 2014 AND 2013

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, 2014 AND 2013

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, 2014 AND 2013

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. UNEARNED REVENUE

CalMHSA received \$39,185 in fiscal year 2014 for the PEI Sustainability Program to be spent in the 2015 fiscal year. It is classified as unearned revenue in 2014 and will be recognized in 2015.

G. 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.

H. 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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

I. FUND BALANCE

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

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

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

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

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

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

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

2. CASH AND INVESTMENTS

A. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Cash in banks	\$ 344,039	\$ 216,032
Money Market Account	110,839	-
LAIF	420,344	14,017,420
Money Market Trust	-	16,740
	<u>\$ 875,222</u>	<u>\$ 14,250,192</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

Cash in Bank

As of June 30, 2014 and 2013, CalMHSA's balances per the bank of \$344,039 and \$216,032 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, 2014, CalMHSA's had cash in a money fund managed by Morgan Stanley Smith Barney LLC.

Local Agency Investment Fund

CalMHSA places certain funds with the State of California's Local Agency Investment Fund (LAIF). The Authority is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. These pooled funds are carried at cost, which approximates market value and is reported in the accompanying financial statements based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. The monies held in the pooled investment funds are not subject to categorization by risk category. LAIF is currently unrated and has an average maturity of 232 days.

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

2. CASH AND INVESTMENTS (Continued)

B. Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>< 1yr</u>	<u>1-3 yrs</u>
Federal Agencies	\$ 8,444,198	\$ 8,444,198	\$ -
Corporate Notes	35,487,568	35,487,568	-
Total	<u>\$ 43,931,766</u>	<u>\$ 43,931,766</u>	<u>\$ -</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.

<u>Investment Type</u>	<u>Total</u>	<u>AA+</u>	<u>AA</u>	<u>AA-</u>
Federal Agencies	\$ 8,444,198	\$ 2,845,859	\$ 4,683,428	\$ 2,429,967
Corporate Notes	35,487,568	2,801,961	-	-
Total	<u>\$43,931,766</u>	<u>\$ 5,647,820</u>	<u>\$ 4,683,428</u>	<u>\$ 2,429,967</u>

<u>Investment Type</u>	<u>A+</u>	<u>A</u>	<u>A-</u>
Federal Agencies	\$ 4,023,360	\$ 4,011,200	\$ 2,492,544
Corporate Notes	-	-	-
Total	<u>\$ 4,023,360</u>	<u>\$ 4,011,200</u>	<u>\$ 2,492,544</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

B. Investments (continued)

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:

<u>Investment</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
Fed Home LN MTG Corp	Federal Agencies	\$ 5,642,238	13%
Credit Suisse New York YCD	Corporate Bonds	\$ 5,004,250	11%
JPMorgan Securities LLC C/P	Corporate Bonds	\$ 4,998,500	11%
BNP Paribas Finance Inc C/P	Corporate Bonds	\$ 4,998,450	11%
Coca-Cola Co	Corporate Bonds	\$ 4,683,428	11%
Wells Fargo & Company	Corporate Bonds	\$ 4,023,360	9%
Walt Disney Company	Corporate Bonds	\$ 4,011,200	9%
General Electric Capital Corp	Corporate Bonds	\$ 2,845,859	6%
Fed Natl MTG Assn	Federal Agencies	\$ 2,801,960	6%
Pepsico Inc	Corporate Bonds	\$ 2,492,554	6%
Toyota Motor Credit Corp	Corporate Bonds	\$ 2,429,967	6%

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. 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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

4. CONTRACT SERVICES

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

5. SUBSEQUENT EVENTS

CalMHSA's management evaluated its 2014 financial statements for subsequent events through December 12, 2014, 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

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

FOR THE YEAR ENDED JUNE 30, 2014

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:			
Technical Assistance/Capacity Building	\$ 623,400	\$ 504,711	\$ (118,689)
PEI Statewide Programs - Planning	-	-	-
PEI Statewide - Program Implementation	-	-	-
WET Program Funding	-	155,220	155,220
SHB Funding	-	94,090	94,090
Feasibility Study Funding	-	-	-
Fees	-	-	-
Investment Income	1,200,000	495,505	(704,495)
Total Revenue	<u>1,823,400</u>	<u>1,249,526</u>	<u>(573,874)</u>
EXPENDITURES/EXPENSES:			
Program Expenses			
Technical Assistance/Capacity Building	623,400	432,523	190,877
WET Program Funding	147,720	6,750	140,970
SHB Program Funding	-	94,010	(94,010)
Feasibility Study Funding	-	-	-
PEI Statewide Programs	56,969,658	35,391,976	21,577,682
Evaluation Expense	2,200,000	1,908,627	291,373
Planning Expense	500,000	407,597	92,403
Total Project Expense	<u>60,440,778</u>	<u>38,241,483</u>	<u>22,199,295</u>
General and Administration	<u>6,858,564</u>	<u>1,150,716</u>	<u>5,707,848</u>
Total Expenditures/Expenses	<u>67,299,342</u>	<u>39,392,199</u>	<u>27,907,143</u>
Change in Fund Balance/Net Position	(65,475,942)	(38,142,673)	(28,481,017)
FUND BALANCE/NET POSITION			
Beginning of year	<u>128,720,329</u>	<u>128,720,329</u>	<u>-</u>
End of year	<u>\$ 63,244,387</u>	<u>\$ 90,577,656</u>	<u>\$ (28,481,017)</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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise California Mental Health Services Authority's basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control Over Financial Reporting

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

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

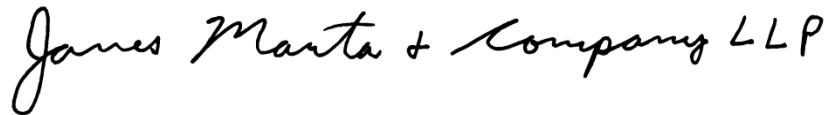
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given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

Compliance and Other Matters

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

Purpose of this Report

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

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

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 12, 2014