

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

FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015**



California Mental Health Services Authority

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JUNE 30, 2016

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California Mental Health Services Authority

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Mental Health Services Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of California Mental Health Services Authority (“CalMHSA”) as of and for the fiscal years ended June 30, 2016 and 2015, 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, 2016 and 2015, and the respective changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

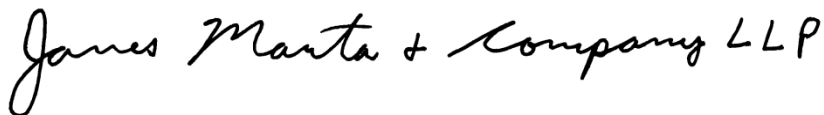
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Statement of Revenues, Expenditures and Change in Fund Balance – Budget (Non-GAAP) and Actual – General Fund – June 30, 2016 and Statement of Revenues, Expenditures and Change in Fund Balance – Budget (Non-GAAP) and Actual – General Fund – June 30, 2015 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, 2016 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 19, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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, 2016 and 2015. The discussion should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Overview of CalMHSA

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

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

As of June 30, 2016, 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 Mental Health Services Oversight and Accountability Commission (MHSOAC).

Background

In 2004, California voters passed Proposition 63 (The Mental Health Services Act) (MHSA), landmark legislation that created an ongoing funding source and a framework for transforming California's traditional community mental health system into a system equipped to support prevention and wellness, and on addressing the unmet needs of California's diverse and underserved population groups with culturally relevant and effective services and education. In 2007, the MHSOAC, which was created as a stipulation of the MHSA to oversee the management of these funds, approved a one-time investment of \$160 million over four-years. Three strategic initiatives were identified through a stakeholder process and approved by the MHSOAC in May 2008, for the distribution of this one-time allocation: \$40 million for Suicide Prevention (SP), \$60 million for Student Mental Health (SMH), and \$60 million for Stigma and Discrimination Reduction (SDR).

On April 15, 2010, CalMHSA executed a contract with the California Department of Mental Health (CDMH) for the amount not to exceed \$160 million. Specifically CalMHSA will, consistent with the requirements of the MHSA and as approved by the MHSOAC and CDMH, develop and implement 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. This contract was 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 was April 15, 2010 through June 30, 2014. In January 2011, the MHSOAC approved the

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

CalMHSA PEI Statewide Projects Implementation Work Plan. A total of 25 providers were identified through an RFP process to implement the Work Plan by June 30, 2014.

Sustainability - Phase I & Phase II

With the end of the four-year period nearing, the CalMHSA Board of Directors adopted a two-phase planning strategy for continuing the investment in statewide PEI efforts. In April 2014, the CalMHSA Board approved a Phase I Funding Plan to sustain the existing Statewide PEI projects through June 30, 2015. Phase I continues some of the current CalMHSA PEI Statewide Projects existing funds and a winding down of others pursuant to the guidance of stakeholders and Board. Phase I was recognized as a short-term sustainability solution for the purpose of providing program partners with additional time to successfully complete their activities and deliverables, and to reduce the risk of any adverse consequences of discontinuing activities (e.g., the ability to measure long-term impact).

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

2015/2016 Program Highlights

PEI Sustainability

The Phase II Plan for sustaining CalMHSA Statewide PEI Projects called for \$20 million per year - \$10 million was expected to be raised from county MHSAs contributions, and \$10 million was expected to be raised from state, federal, or foundation funding. In June 2015, board members approved entering into Phase II contracts which would implement PEI activities during FY 15/16 and 16/17.

Despite numerous attempts to find diverse funding to sustain the Phase II Plan, funding for implementation has come solely from counties. This has resulted in a reduced implementation of the Plan based upon priorities set out by the Board. Due to funding constraints, CalMHSA undertook Phase II program reductions after Board approval in August 2016.

Strategic Programs

In addition to the PEI program, the following strategic programs are also included in CalMHSA's operations during the fiscal year ended June 30, 2016:

- **Fiscal Modernization** - the goal of the pilot study is to provide counties with the background and structure necessary to consider the risks and benefits associated with proposing changes to California's current specialty mental health delivery system and financial risk structure.
- **State Hospital Beds** - CalMHSA acts on behalf member counties (and possibly non-member counties via a contract) in the annual purchase contract for State Hospital Beds (as provided under sections 4330 et seq. of WIC).
- **Wellness program** – This program was funded by the County of Plumas. CalMHSA, acting as the contract administrator for the County, has contracted with the Plumas Crisis Intervention Resource Center (PCIRC) to establish Wellness Centers in the communities of Chester, Greenville, Portola and Quincy. These Wellness Center will compliment and build on the existing Family Resource Center Model and will be developed with an understanding of best practices in the delivery of community mental health services.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

- **Suicide Prevention Hotline** – CalMHSA contracted with Kings View Behavioral Health to operate the Central Valley Suicide Prevention Hotline with specialized support and outreach provided to the seven contributing counties of Fresno, Kings, Mariposa, Madera, Merced, Stanislaus and Tulare.
- **Community Response Plan** – CalMHSA contracted with subject matter experts to develop a comprehensive suicide response protocol/toolkit for the rural community of the Tahoe/Truckee area.
- **Psychiatric Nurse Workforce Exploration (PNWE)** – CalMHSA will research and explore opportunities to increase the number of psychiatrists and/or psychiatric Nurse Practitioners in the Central Region. After sharing findings with county representatives on the Central Region sub-committee, CalMHSA may contract with subject matter experts to develop a program that meets the needs of the region.
- **Drug Medi-Cal** – CalMHSA provided Drug Medi-Cal Organized Delivery System (DMC-ODS) Waiver trainings to counties that opted into the DMC-ODS Waiver, counties that received approval to form a regional delivery system, and providers selected by counties to provide DMC-ODS Waiver services.
- **Orange County** – Orange County, Member of CalMHSA, utilized CalMHSA for procuring consulting services, using various providers, for purposes related to completion of the California Health Facilities Financing Authority application and contract procurement for Crisis Stabilization Units.
- **Education Development Center (EDC)** – EDC’s suicide prevention resource center is funded by the Substance Abuse and Mental Health Services Administration to provide suicide prevention services and resources to a variety of professionals. CalMHSA will create a brief set of guidelines to help staff in state and community programs develop culturally competent suicide prevention materials for the audiences they serve, drawing on CalMHSA’s experience tailoring resources for California’s diverse communities.

Financial Highlights for the Fiscal Year Ended June 30, 2016

Revenues	\$ 8.6 million	Revenues increased \$1.4 million over the prior year. The rise in revenues was primarily due to new funding for other strategic programs, notably State Hospital Beds and the Plumas Wellness Center.
Expenses	\$12.5 million	Expenses decreased \$15 million or 55% over the prior year. The budget for current year Phase II sustainability contracts was significantly less than prior year which reflected payments to contractors for final execution of deliverables from the initial PEI and Phase I programs. Expenses continue to exceed revenue to continue the contract obligations and net assets of prior years.
Assets	\$8.8 million	Assets decreased \$6.2 million over the prior year due to payments to contractors made during the year.
Liabilities	\$ 2.3 million	Liabilities decreased \$2.3 million over the prior year. As deliverables were received and contracts were closed out, this resulted in less amounts owed to contractors at year-end.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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.

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 2016 and 2015, and a look ahead at economic conditions that may affect CalMHSA in the future.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

I. Statement of Net Assets

	2016	2015	2014	Change Over Prior Year
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 7,713,846	\$ 14,220,664	\$ 875,222	-46%
Investments - current portion			43,931,766	
Contractor prepayments	60,000			
Accounts receivable	1,039,048	788,380	979,768	32%
Total Current Assets	8,812,894	15,009,044	45,786,756	-41%
Investments - Noncurrent				
Total Assets	8,812,894	15,009,044	45,786,756	-41%
LIABILITIES				
Current Liabilities				
Accounts payable	1,541,735	4,481,941	14,992,620	-66%
Deferred revenue	780,361	122,345	39,185	538%
WET Program Funding				
Total Current Liabilities	2,322,096	4,604,286	15,031,805	-50%
RESTRICTED NET POSITION	\$ 6,490,798	\$ 10,404,758	\$ 30,754,951	-38%

Cash and cash equivalents decreased \$6.5 million, from \$14.2 million as of June 30, 2015, to \$7.7 million as of June 30, 2016. CalMHSA's investments of \$43.9 million as of June 30, 2014, matured during the year ended June 30, 2015.

Total assets decreased by \$6.2 million from \$15.0 million at June 30, 2015 to \$8.8 million at June 30, 2016. The assets were expected to decrease as payments to contractors for final deliverables and production of products for Phase I were made.

Liabilities decreased \$2.3 million over the prior year. Most of the final deliverables for Phase I were received and contracts were closed out during the fiscal year ended June 30, 2016. Since payments for these contracts were made during the year, it resulted in less amounts owed to contractors at year-end.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

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

	2016	2015	2014	Change Over Prior Year
Operating revenues	\$ 8,553,192	\$ 7,095,078	\$ 1,462,874	21%
Operating expenses:				
Program expenses	11,827,894	26,200,594	60,500,806	-55%
Indirect expenses	689,831	1,336,150	1,089,271	-48%
Total operating expenses	<u>12,517,725</u>	<u>27,536,744</u>	<u>61,590,077</u>	-55%
Operating income/(loss)	(3,964,533)	(20,441,666)	(60,127,203)	81%
Nonoperating income	<u>50,573</u>	<u>91,473</u>	<u>304,498</u>	-45%
Increase/(decrease) in net assets	(3,913,960)	(20,350,193)	(59,822,705)	
Net position, beginning of year	10,404,758	30,754,951	90,577,656	-66%
Net position, end of year	<u>\$ 6,490,798</u>	<u>\$ 10,404,758</u>	<u>\$ 30,754,951</u>	-38%

For the fiscal year ended, June 30, 2016, total revenue (operating and non-operating) increased by \$1.4 million. Operating revenue increased over fiscal year 2015 primarily due to new funding for other strategic programs, notably the Plumas Wellness Center (\$1 million) and the Suicide Prevention Hotline (\$627 thousand) as well as an increase in State Hospital Bed funding (increase of \$468 thousand). These increases were offset by decreases in funding for current year Phase II versus prior year Phase I (\$331 thousand decrease) as well as revenue related to the 2015 International SDR Conference (\$367 thousand).

Operating expenses were \$12.5 million in fiscal year 2016. This was a \$15.0 million or 55% decrease compared to 2015. The budget for current year Phase II sustainability contracts was significantly less than prior year which reflected payments to contractors for final execution of deliverables from the initial PEI and Phase I programs.

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

While the CalMHSA Statewide PEI Project has made significant accomplishments since its inception in 2011, there continues to be a critical need to continue the investment over the long term. The CalMHSA Statewide PEI Project, Phase II Plan, adopted by the Board in August 2014, proposed diversifying the

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015

funding base for statewide projects to include private support. Additionally, the Board directed staff to seek private funding. While Staff worked diligently to seek private funding from foundations and donors, to date the effort has been unsuccessful. Thus, during 2016 a feasibility study was conducted for the purpose of ascertaining potential private interest and support of CalMHSA Statewide PEI Project via a subcontract with a known expert in fund raising.

Positive outcomes were derived from the feasibility study indicating there is private interest in possibly funding the Statewide PEI Project, and great interest in the development of a Leadership Council that would help guide efforts towards a fund-raising campaign. Additionally, the feasibility study has made it clear that private parties intend to only support activities, not supplant the current funding, and will supplement commensurate with county funding. This requires that counties commit to maintain and build a level of funding in order to secure and leverage those additional private funds—estimated county support to eventually reach \$15 million per year. Additionally, it will require county funding for an annual budget line item to for contract services for the purposes of fund development for the next three years.

The ultimate private funding goal is to obtain at minimum \$15 million per year, for five years, for a total of \$75 million, with similar leveraged amounts by county members. By doing so, staff expects that the relationships built during this effort will help maintain ongoing future funding.

Through implementation of the Phase III CalMHSA Statewide PEI Project Plan, CalMHSA and its member counties will embark on the 7th year of CalMHSA Statewide PEI Project activities. Building on the momentum of the current Phase II Plan, the Phase III Plan will extend key activities which have shown positive short-term outcomes while allowing CalMHSA the time necessary to again seek input from counties and other stakeholders (including from the new Leadership Council) to further refine a long-term Statewide PEI Plan to prevent mental illness from becoming severe and disabling. Prevention and public oriented efforts require long term investments and commitment to ensure the achievement of long term goals.

BASIC FINANCIAL STATEMENTS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,713,846	\$ 14,220,664
Contractor prepayments	60,000	-
Receivables	1,039,048	788,380
Total Current Assets	<u>\$ 8,812,894</u>	<u>\$ 15,009,044</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,541,735	\$ 4,481,941
Unearned revenue	780,361	122,345
Total Current Liabilities	<u>2,322,096</u>	<u>4,604,286</u>
FUND BALANCE / NET POSITION		
Net Postion:		
Operations	776,519	823,361
Obligated Funds Under Contract:		
International SDR Conference	(50,113)	(26,578)
Tech Asst/Capacity Building	203,272	203,448
WET Program Funding	148,470	148,470
Fiscal Modernization	169,910	259,561
SHB Program Funding	1,347,309	540,032
Wellness Center	620,938	-
Suicide Prevention Hotline	34,015	-
Community Response Plan	10,749	-
PNWE	7,576	-
Drug Medi-Cal	(5,322)	-
Orange County	2,862	-
Education Development Center, Inc.	3,493	-
Statewide PEI Project	3,221,120	8,456,464
Total Restricted	<u>6,490,798</u>	<u>10,404,758</u>
Total Liabilities and Fund Balance/Net Position	<u>\$ 8,812,894</u>	<u>\$ 15,009,044</u>

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	Strategic Programs	Operations	PEI	2016	2015
REVENUES:					
Wellness Center Funding	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
Suicide Prevention Hotline Funding	627,642	-	-	627,642	-
Community Response Plan Funding	34,000	-	-	34,000	-
PNWE Funding	10,000	-	-	10,000	-
SHB Funding	905,508	-	-	905,508	437,943
PEI Funding	-	-	5,959,792	5,959,792	6,290,472
Orange County Funding	12,500	-	-	12,500	-
Conference Registration	(20,421)	-	-	(20,421)	326,663
Donations	-	-	-	-	40,000
EDC Funding	3,500	-	-	3,500	-
Application Fee	-	250	-	250	-
Investment Income	-	50,573	-	50,573	91,473
Total Revenue	<u>2,572,729</u>	<u>50,823</u>	<u>5,959,792</u>	<u>8,583,344</u>	<u>7,186,551</u>
EXPENDITURES/EXPENSES:					
Program Expenses					
SDR Conference	3,117	-	-	3,117	393,238
Technical Assistance/Capacity Building	-	-	-	-	36,149
Planning Expense	-	-	-	-	587,248
SHB Program Funding	9,963	-	-	9,963	92,221
Feasibility Study Funding	84,371	-	-	84,371	11,569
Program Expense	-	63,565	10,745,072	10,808,637	22,360,060
Evaluation Expense	-	-	-	-	2,720,109
Wellness Center Expense	370,262	-	-	370,262	-
Suicide Prevention Hotline Expense	499,481	-	-	499,481	-
Community Response Plan Expense	18,151	-	-	18,151	-
PNWE Expense	924	-	-	924	-
Drug Medi-Cal Expense	4,797	-	-	4,797	-
Orange County Expense	7,763	-	-	7,763	-
EDC Expense	7	-	-	7	-
Total Program Expense	<u>998,836</u>	<u>63,565</u>	<u>10,745,072</u>	<u>11,807,473</u>	<u>26,200,594</u>
General and Administration	<u>205,670</u>	<u>34,102</u>	<u>450,059</u>	<u>689,831</u>	<u>1,336,150</u>
Total Expenditures/Expenses	<u>1,204,506</u>	<u>97,667</u>	<u>11,195,131</u>	<u>12,497,304</u>	<u>27,536,744</u>
Change in Fund Balance/Net Position	1,368,223	(46,844)	(5,235,339)	(3,913,960)	(20,350,193)
FUND BALANCE/NET POSITION					
Beginning of year	<u>1,124,936</u>	<u>823,363</u>	<u>8,456,459</u>	<u>10,404,758</u>	<u>30,754,951</u>
End of year	<u>\$ 2,493,159</u>	<u>\$ 776,519</u>	<u>\$ 3,221,120</u>	<u>\$ 6,490,798</u>	<u>\$ 10,404,758</u>

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 and 2015, there were 52 members (50 counties, one city and one JPA).

Admission

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

Withdrawal

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

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

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 AND 2015

B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

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

Governmental Fund Financial Statement

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

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

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

In addition to the PEI program, the following strategic programs were also included in CalMHSA's operations during the fiscal year ended June 30, 2016:

- **Wellness program** – This program was funded by the County of Plumas. CalMHSA, acting as the contract administrator for the County of Plumas, has contracted with the Plumas Crisis Intervention Resource Center (PCIRC). PCIRC is tasked to establish Wellness Centers in the communities of Chester, Greenville, Portola and Quincy. These Wellness Center will

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

compliment and build on the existing Family Resource Center Model and will be developed with an understanding of best practices in the delivery of community mental health services and provide a consumer-driven, community based setting that offers a casual and friendly environment for community members to access mental health and other ancillary services.

- **Suicide Prevention Hotline** – CalMHSA contracted with Kings View Behavioral Health to operate the Central Valley Suicide Prevention Hotline with specialized support and outreach provided to the seven contributing counties of Fresno, Kings, Mariposa, Madera, Merced, Stanislaus and Tulare.
- **Community Response Plan** – CalMHSA contracted with subject matter experts to develop a comprehensive suicide response protocol/toolkit for the rural community of the Tahoe/Truckee area. Furthermore, they will develop a template and guidelines that can be used by other Central Region counties to replicate a suicide response protocol/toolkit that meets any Central Region rural community's needs.
- **Psychiatric Nurse Workforce Exploration (PNWE)** – CalMHSA will research and explore opportunities to increase the number of psychiatrists and/or psychiatric Nurse Practitioners in the Central Region. After sharing findings with county representatives on the Central Region sub-committee, CalMHSA may contract with subject matter experts to develop a program that meets the needs of the region.
- **Drug Medi-Cal** – CalMHSA provided Drug Medi-Cal Organized Delivery System (DMC-ODS) Waiver trainings to counties that opted into the DMC-ODS Waiver, counties that received approval to form a regional delivery system, and providers selected by counties to provide DMC-ODS Waiver services. CalMHSA will also provide technical assistance to counties and providers as required by the Department of Health Care Services (DHCS) and provide DHCS with monthly progress reports; trainings up to once quarterly and a final report.
- **Orange County** – Orange County, Member of CalMHSA, utilized CalMHSA for procuring consulting services, using various providers, for purposes related to completion of the California Health Facilities Financing Authority application and contract procurement for Crisis Stabilization Units.
- **Education Development Center (EDC)** – EDC's suicide prevention resource center is funded by the Substance Abuse and Mental Health Services Administration to provide suicide prevention services and resources to a variety of professionals. It is essential that this information be provided in a culturally appropriate manner. CalMHSA will create a brief set of guidelines to help staff in state and community programs develop culturally competent suicide prevention materials for the audiences they serve, drawing on CalMHSA's experience tailoring resources for California's diverse communities.

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, 2016 AND 2015

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, 2016 AND 2015

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 CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash in banks	\$ 57,875	\$ 245,647
Money Market Account	1,471	1,630
LAIF	7,654,500	13,973,387
	<u>\$ 7,713,846</u>	<u>\$ 14,220,664</u>

Cash in Bank

As of June 30, 2016 and 2015, CalMHSA's balances per the bank of \$261,500 and \$436,915 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, 2016, 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, 2016 AND 2015

Local Agency Investment Fund

California Mental Health Services Authority places certain funds with the State of California's Local Agency Investment Fund (LAIF). The District is a voluntary participant in LAIF, which is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurers Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the District's investment in this pool is reported in the accompanying financial statements based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours' notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. At June 30, 2016, the interest rate was 0.55%.

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.
Local Agency Investment Fund Valuation

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at June 30, 2016:

Description	Level 1	Level 2	Level 3	Total
Total	\$ 4,517,538	\$ 3,136,962	\$ -	\$ 7,654,500

3. RECEIVABLES

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

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.calmhhsa.org for a complete list of the statewide PEI approved contractors.

5. SUBSEQUENT EVENTS/CONTINGENT LIABILITY

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

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

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

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

No liability has been booked in the financial statements, as the outcome cannot be determined.

CalMHSA's management evaluated its 2016 financial statements for subsequent events through December 19, 2016, the date the financial statements were available to be issued. Management is not aware of any other subsequent events, other than that noted above, that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:				
SHB Funding	\$ 438,642	\$ 438,642	\$ 905,508	\$ 466,866
Sustainability Funding	4,820,775	4,820,775	5,959,792	1,139,017
Wellness Center Funding	-	1,000,000	1,000,000	-
TTACB Contract	120,000	120,000	-	(120,000)
Fiscal Modernization	210,527	210,527	-	(210,527)
Amounts Not Budgeted	-	-	718,044	718,044
Total Revenue	<u>5,589,944</u>	<u>6,589,944</u>	<u>8,583,344</u>	<u>1,993,400</u>
EXPENDITURES/EXPENSES:				
Program Expenses				
PEI Program Services	8,099,737	8,299,737	10,808,637	(2,508,900)
SHB Program Funding	438,422	438,422	9,963	428,459
Fiscal Modernization	-	-	84,371	(84,371)
Amounts Not Budgeted	-	-	904,502	(904,502)
Total Project Expense	<u>8,538,159</u>	<u>8,738,159</u>	<u>11,807,473</u>	<u>(3,069,314)</u>
General and Administration	<u>522,907</u>	<u>522,907</u>	<u>689,831</u>	<u>(166,924)</u>
Total Expenditures/Expenses	<u>9,061,066</u>	<u>9,261,066</u>	<u>12,497,304</u>	<u>(3,236,238)</u>
Change in Fund Balance/Net Position	(3,471,122)	(2,671,122)	(3,913,960)	5,229,638
FUND BALANCE/NET POSITION				
Beginning of year	<u>10,404,759</u>	<u>10,404,759</u>	<u>10,404,759</u>	<u>-</u>
End of year	<u>\$ 6,933,637</u>	<u>\$ 7,733,637</u>	<u>\$ 6,490,799</u>	<u>\$ 5,229,638</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, 2015

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:			
SHB Funding	\$ 450,000	\$ 437,943	\$ (12,057)
Sustainability Funding	12,800,000	6,290,472	(6,509,528)
Conference Registration	-	326,663	326,663
Donations	-	40,000	40,000
Feasibility Study Funding	-	(1,763)	(1,763)
Investment Income	95,000	91,473	(3,527)
Total Revenue	<u>13,345,000</u>	<u>7,184,788</u>	<u>(6,160,212)</u>
EXPENDITURES/EXPENSES:			
Program Expenses			
SDR Conference	-	393,238	(393,238)
Technical Assistance/Capacity Building	-	36,149	(36,149)
SHB Program Funding	450,080	92,221	357,859
Feasibility Study Funding	248,703	9,806	238,897
Program Expenses	40,349,390	22,360,060	17,989,330
Evaluation Expense	2,326,733	2,720,109	(393,376)
Planning Expense	-	587,248	(587,248)
Total Project Expense	<u>43,374,906</u>	<u>26,198,831</u>	<u>17,176,075</u>
General and Administration	<u>3,155,583</u>	<u>1,336,150</u>	<u>1,819,433</u>
Total Expenditures/Expenses	<u>46,530,489</u>	<u>27,534,981</u>	<u>18,995,508</u>
Change in Fund Balance/Net Position	(33,185,489)	(20,350,193)	(25,155,720)
FUND BALANCE/NET POSITION			
Beginning of year	<u>30,754,951</u>	<u>30,754,951</u>	<u>-</u>
End of year	<u>\$ (2,430,538)</u>	<u>\$ 10,404,758</u>	<u>\$ (25,155,720)</u>

OTHER AUDITOR'S REPORT



James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund, and the aggregate remaining information of California Mental Health Services Authority, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise California Mental Health Services Authority's basic financial statements, and have issued our report thereon dated December 19, 2016.

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.

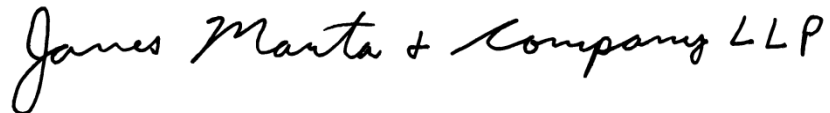
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given 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 19, 2016