

Memo

December 20, 2013

To: Gary Renslo, California Department of Health Care Services (CDHCS)
From: Kim Santin, Finance Director, California Mental Health Services Authority

Re: CalMHSA Contract 09-79119-00 (DHCS #12-89125) Reporting for the Fiscal Year Ended June 30, 2013

On behalf of the California Mental Health Services Authority (CalMHSA), enclosed are the JPA's revenue and expenditure report as well as our financial audit for the years ended June 30, 2013. The attached report demonstrates CalMHSA's execution of the deliverables outlined in the April 29, 2010 contract:

- B. Commencing in FY 2010/2011 and each fiscal year thereafter, not later than December 31, the Contractor shall provide to CDHCS the following information for the previous fiscal year:
 - (1) An accounting of the funds administered by the Contractor in aggregate, to include:
 - a.) Amount at the beginning of the fiscal year in the account specified in item 5.B.
 - b.) Amounts received during the fiscal year.
 - c.) Amount disbursed throughout the fiscal year.
 - (2) An accounting of funds by County as specified in item 5.B.(6) to include:
 - a.) Amount at the beginning of the reporting term.
 - b.) Amount of funds received for each County.
 - c.) Amount of interest earned on funds by date posted to the account.
 - d.) Amount of funds remaining for each County at the end of the reporting term.
 - e.) A report on the total amount of encumbered and unencumbered funds.
- C. The Contractor shall prepare and distribute at its meetings quarterly reports of all of its revenues and expenditures.
- D. The Contractor shall keep such books and records of the operation of the programs and the Account, pursuant to generally accepted accounting principles for governmental entities, practices and applicable laws and regulations. CDHCS, or its representative, shall have the right to audit the programs and Account, at its expense, and upon reasonable notice to the Contractor.

Please contact me with any questions (916-859-4820, kim.santin@calmhsa.org).

California Mental Health Service Authority (CalMHSA)
Contract 09-79119-00 Reporting
For the Fiscal Year Ended June 30, 2013

Contract 09-79119-000
References:

County	5B(2)a	5B(2)b	5B(1)c		5B(2)c	5B(2)d			
	5B(1)a	5B(1)b	Less Disbursements of	Interest Earned on PEI Funds	GAAP Basis PEI Fund Balance as of June 30, 2013	Contract Basis PEI Fund Balance as of June 30, 2013			
County/Total Available Funds (Includes funding for 11/12 Fiscal Year)	Amount at Beginning of Fiscal Year	PEI Funds Received During 2012/2013 Fiscal Year	PEI Funds Receivable June 30, 2013 Note (1)	Total PEI Funds Recognized by CalMHSA under GAAP Accounting	\$38,713,297	\$1,483,827	Note (1)(2)	Note (1)	
Butte	\$875,200	765,752	-	-	(230,825)	8,847	543,774	543,774	
Amador	\$126,400	110,593	-	-	(33,337)	1,278	78,534	78,534	
Calaveras	\$165,200	144,541	-	-	(43,570)	1,670	102,641	102,641	
Colusa	\$100,000	87,494	-	-	(26,374)	1,011	62,131	62,131	
Contra Costa	\$3,668,800	3,209,997	-	-	(967,608)	37,087	2,279,476	2,279,476	
El Dorado	\$580,800	508,168	-	-	(153,180)	5,871	360,859	360,859	
Fresno	\$3,994,000	3,494,529	-	-	(1,053,376)	40,374	2,481,527	2,481,527	
Glenn	\$108,400	94,844	-	-	(28,589)	1,096	67,350	67,350	
Imperial	\$750,000	656,208	-	-	(197,805)	7,582	465,985	465,985	
Humboldt	\$502,800	439,922	-	-	(132,608)	5,083	312,397	312,397	
Inyo	\$100,000	(11,240)	100,000	-	(26,374)	1,011	63,397	63,397	
Kern	\$3,423,600	2,995,460	-	-	(902,939)	34,608	2,127,129	2,127,129	
Lake	\$236,800	207,187	-	-	(62,454)	2,394	147,127	147,127	
Lassen	\$101,200	89,825	-	-	(26,690)	1,023	64,158	64,158	
Los Angeles	\$46,713,600	40,871,812	-	-	(12,320,231)	472,217	29,023,799	29,023,799	
Madera	\$649,600	568,364	-	-	(171,325)	6,567	403,605	403,605	
Marin	\$889,600	778,351	-	-	(234,623)	8,993	552,721	552,721	
Mariposa	\$100,000	(11,240)	25,000	75,000	(26,374)	1,011	63,397	(11,603)	
Mendocino	\$328,000	286,982	-	-	(86,507)	3,316	203,791	203,791	
Merced	\$1,132,800	991,137	-	-	(298,764)	11,451	703,824	703,824	
Modoc	\$100,000	87,494	-	-	(26,374)	1,011	62,131	62,131	
Mono	\$100,000	(11,240)	100,000	-	(26,374)	1,011	63,397	63,397	
Monterey	\$1,826,400	1,597,999	-	-	(481,694)	18,463	1,134,767	1,134,767	
Napa	\$484,400	429,954	-	-	(127,756)	4,897	307,096	307,096	
Orange	\$13,336,800	11,668,961	-	-	(3,517,444)	134,819	8,286,336	8,286,336	
Placer	\$1,096,400	959,289	-	-	(289,164)	11,083	681,208	681,208	
Riverside	\$8,856,000	7,748,509	-	-	(2,335,679)	89,523	5,502,354	5,502,354	
Sacramento	\$5,327,200	4,661,005	-	-	(1,404,994)	53,851	3,309,862	3,309,862	
San Bernardino	\$8,615,200	7,537,823	-	-	(2,272,170)	87,089	5,352,742	5,352,742	
San Diego	\$13,506,800	11,817,702	-	-	(3,562,280)	136,537	8,391,960	8,391,960	
San Francisco	\$3,020,400	2,668,170	-	-	(796,599)	30,533	1,902,103	1,902,103	
San Joaquin	\$250,000	221,900	-	-	(65,935)	2,527	158,493	158,493	
San Luis Obispo	\$1,032,000	902,943	-	-	(272,179)	10,432	641,196	641,196	
San Mateo	\$2,610,800	2,284,305	-	-	(688,572)	26,392	1,622,126	1,622,126	
Santa Barbara	\$1,808,800	1,582,600	-	-	(477,052)	18,285	1,123,832	1,123,832	
Santa Clara	\$7,707,600	6,743,723	-	-	(2,032,800)	77,914	4,788,837	4,788,837	
Santa Cruz	\$1,130,000	988,687	-	-	(298,026)	11,423	702,084	702,084	
Siskiyou	\$143,200	125,292	-	-	(37,768)	1,448	88,972	88,972	
Solano	\$1,604,400	1,417,299	-	-	(423,144)	16,219	1,010,374	1,010,374	
Sonoma	\$1,758,800	1,538,853	-	-	(463,865)	17,779	1,092,766	1,092,766	
Stanislaus	\$2,040,800	1,785,587	-	-	(538,240)	20,630	1,267,977	1,267,977	
Sutter/Yuba	\$600,800	528,202	-	-	(158,455)	6,073	375,820	375,820	
Tuolumne	\$193,200	171,485	-	-	(50,955)	1,953	122,483	122,483	
Tri Cities	\$817,200	725,348	-	-	(215,528)	8,261	518,081	518,081	
Trinity	\$100,000	87,494	-	-	(26,374)	1,011	62,131	62,131	
Ventura	\$3,339,200	2,921,615	-	-	(880,680)	33,755	2,074,691	2,074,691	
Yolo	\$832,800	728,654	-	-	(219,642)	8,419	517,430	517,430	
Total	\$146,786,000	128,198,342	\$225,000	\$75,000	\$0	(38,713,297)	1,483,827	91,268,872	91,193,872

Note (1) - The GAAP Basis Fund Balance of \$91,268,872 (\$91,193,872+\$75,000) is \$75,000 more than the Contract Basis of PEI Fund Balance for Cash Basis recognition of Revenue.

Note (2) - The Fund Balance on the Audit includes all programs.

PEI programs	91,268,872
Technical Asst/Cap	60,017
WET program	148,470
SHB Program	80
Operations	(899,783)
Total Fund Balance	90,577,656

FY 2013	38,713,297.00
FY 2012	16,674,078.00
FY 2011	1,661,817.00
FY 2010	235,700.00
	<u>57,284,892.00</u>

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

FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**



California Mental Health Services Authority

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JUNE 30, 2013

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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, 2013 and 2012, which collectively comprise CalMHSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CalMHSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Managements Responsibility for the Financial Statements

Management is responsible for the preparation 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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of California Mental Health Services Authority as of June 30, 2013 and 2012, and the related 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 Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013 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 LLP

James Marta & Company
Certified Public Accountants
December 4, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

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, 2013 and 2012. The discussion should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Overview of CalMHSA

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

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

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

CalMHSA is an independent administrative and fiscal government agency focused on the efficient delivery of California mental health projects. On June 11, 2009, six California counties established CalMHSA as a Joint Powers Authority (JPA) to jointly develop, fund and implement mental health services, projects and educational programs at the state, regional and local levels. California counties may choose to implement the three statewide PEI programs through CalMHSA. As of June 30, 2013, 51 members (49 counties, one city and one JPA) work together to develop, fund and implement PEI programs, on a statewide or regional basis that conform with the “Guidelines for PEI Statewide Programs” issued by the MHSOAC. Total funding available for the CalMHSA members was \$146.8 million.

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

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;

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

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 (MHSA) and as approved by the Mental Health Services Oversight and Accountability Commission (MHSOAC) and CDMH, develop and implement Prevention and Early Intervention (PEI) programs, on a statewide or regional basis that conform with the "Guidelines for PEI Statewide Programs" issued by the MHSOAC and the three State Strategic Plans. The purposes of these programs will be reducing suicides, eliminating stigma and discrimination related to mental illness, and promoting student mental health. This contract has been funded exclusively from funds in the "PEI State-Administered Projects Planning Estimates", now called the "PEI State-Administered Component Allocations", published on September 11, 2008. The term of this contract is April 15, 2010 through June 30, 2014. In June 2012, the contract was transferred to the California Department of Health Care Services, of which has noted acceptance of a noncash extension through June 30, 2017

Guiding Principles for Budget Development

The operations of CalMHSA included in these Financial Statements are:

- Technical Assistance/Capacity Building - \$504,711
- 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.

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.

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, 2013 AND 2012

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.

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

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 11 times that of the California State University and University of California systems, and admits “any student capable of benefiting from instruction.” The CCC contract was augmented in order to serve a larger student population than other higher education systems and to serve an expanded geographic and/or racial/ethnic/cultural and underserved population.

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

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

Plan Update

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

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

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

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

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

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>\$122,362,736</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%

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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

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.

Budget Highlights

Since the development of the initial budget, membership has exceeded management's expectations and is currently at 51 members. As of October 2012, member counties have directed \$146,786,000 (\$160 million is statewide total) to CalMHSA.

Financial Highlights for the Fiscal Year Ended June 30, 2013

Operating revenue was \$754,000 in fiscal year 2013 mainly comprising current year funding for Technical Assistance/Capacity Building of \$504,000; Workforce Education Training (WET) of \$155,000; and State Hospital Beds of \$94,000. Operating revenue is substantially less in fiscal year 2013 as the revenue of \$146 million has been recognized and received in prior fiscal years.

Operating expenses were \$39.4 million in fiscal year 2013. This was a \$22.1 million increase compared to 2012. Increased planning, program and evaluation expenses for the implementation of the Prevention and Early Intervention (PEI) statewide initiatives was the main reason for the increase in total expenses. During the fiscal year 2012, CalMHSA entered into 28 contracts with 28 program partners. Expenditures on this contract, as of June 30, 2013, were \$36.1 million, which was a full year of contract implementation.

Cash and cash equivalents was \$14.2 million as of June 30, 2013 compared to \$39.4 million as of June 30, 2012. The \$25 million decrease compared to prior fiscal year mainly relates to activity related to a full year of contract implementation.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

Total accounts receivable was \$580,592 as of June 30, 2013 compared to \$815,493 as of June 30, 2012. The collection of prior year PEI funding revenue was the main reason for the decrease in accounts receivable. \$417,927 of the receivables are interest receivable.

Description of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to CalMHSA's financial statements: the Statement of Net 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 **Statement 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 **Statement of Revenues, Expenses and Changes in Net Position** 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 the Agency's financial position and activities for fiscal years 2013 and 2012, 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, 2013 AND 2012

I. Statement of Net Position

	2013	2012	2011	% Change Over Prior Year
ASSETS				
Current Assets				
Cash and cash equivalents	\$14,250,192	\$39,436,531	\$91,445,563	-64%
Investments - Current Portion	53,969,429	34,325,521	-	184%
Contractor Prepayments	368,996	3,369,932	-	-84%
Accounts receivable	580,592	815,493	13,234,744	-29%
Total Current Assets	<u>69,169,210</u>	<u>73,021,552</u>	<u>104,680,307</u>	-6%
Investments - Noncurrent	<u>27,449,689</u>	<u>56,373,873</u>	-	-56%
Total Assets	<u>96,618,898</u>	<u>134,321,350</u>	<u>104,680,307</u>	28%
Current Liabilities:				
Accounts payable	6,041,242	5,445,801	72,286	11%
WET Program Funding	<u>-</u>	<u>155,220</u>	<u>-</u>	-100%
Total Current Liabilities	<u>6,041,242</u>	<u>5,601,021</u>	<u>72,286</u>	8%
Net position	<u><u>\$90,577,656</u></u>	<u><u>\$128,720,329</u></u>	<u><u>\$104,608,021</u></u>	-29%

CalMHSA's Assets

Total assets decreased by \$37.7 million to \$96.6 million at June 30, 2013. The assets are expected to decrease as programs are implemented.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

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

	2013	2012	2011	% Change Over Prior Year
Operating revenues	<u>\$754,021</u>	<u>\$41,034,000</u>	<u>\$102,616,05</u>	-98%
Operating expenses:				
Program expenses	38,241,533	16,422,882	1,675,824	233%
Indirect expenses	<u>1,150,716</u>	<u>888,756</u>	<u>-</u>	129%
Total operating expenses	<u>39,392,249</u>	<u>17,311,638</u>	<u>1,675,824</u>	295%
Operating income	(38,638,228)	23,722,362	100,940,226	-163%
Nonoperating income	<u>495,555</u>	<u>389,946</u>	<u>108,314</u>	127%
Increase (Decrease) in net position	(38,142,673)	24,112,308	101,048,540	-159%
Net position beginning of year	<u>128,720,329</u>	<u>104,608,021</u>	<u>3,559,481</u>	123%
Net position end of year	<u>\$90,577,656</u>	<u>\$128,720,329</u>	<u>\$104,608,02</u>	-29%

Revenues (Operating and Nonoperating)

For the fiscal year ended, June 30, 2013, total revenue (operating and nonoperating) decreased by \$40.2 million. At June 30, 2013, 50 counties were members of CalMHSA. One of the counties joined CalMHSA during the fiscal year ended, June 30, 2013.

Expenses

For the fiscal year ended, June 30, 2013, total expenses increased by \$22 million. CalMHSA has a full year of program phase implementation of the Prevention and Early Intervention (PEI) statewide initiatives, which was the main reason for the increase in total expenses.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

Economic Outlook

The administration of community and statewide mental health programs in California is undergoing significant change. The California Governor's 2012-2013 Budget has eliminated the California Department of Mental Health (DMH). The shift in the state's role, with emphasis on local effort in mental health, may present additional challenges and opportunities for California counties, CalMHSA and CMHDA for statewide administration of programs. CalMHSA is currently positioned to administer additional Statewide Prevention and Early Intervention (PEI) projects and Statewide and Regional Workforce, Education and Training (WET) projects. These opportunities would extend beyond the existing contract dates, which has been given a no-cost extension to complete run out of the PEI Programs.

BASIC FINANCIAL STATEMENTS

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 14,250,192	\$ 39,436,531
Investments- Current Portion	53,969,429	34,325,521
Contractor prepayments	368,996	3,369,932
Receivables:	<u>580,592</u>	<u>815,493</u>
Total Current Assets	69,169,209	77,947,477
Non Current Assets		
Investments	<u>27,449,689</u>	<u>56,373,873</u>
Total Assets	<u>\$ 96,618,898</u>	<u>\$ 134,321,350</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 6,041,242	\$ 5,445,801
Unearned WET Program funding	<u>-</u>	<u>155,220</u>
Total Current Liabilities	6,041,242	5,601,021
FUND BALANCE / NET POSITION		
Net Postion:		
Restricted		
Tech asst/capacity building	60,017	48
Operations	680,168	318,063
PEI funding	89,688,921	128,402,218
WET Program Funding	148,470	-
SHB Program Funding	<u>80</u>	<u>-</u>
Total Restricted	<u>90,577,656</u>	<u>128,720,329</u>
Total Liabilities and Fund Balance/Net Position	<u>\$ 96,618,898</u>	<u>\$ 134,321,350</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
REVENUES:		
Technical Assistance/Capacity Building	\$ 504,711	\$ 250,400
PEI Statewide Programs - Planning	-	2,038,430
PEI Statewide - Program Implementation	-	38,730,170
WET Program Funding	155,220	-
SHB Funding	94,090	-
Fees	-	15,000
Investment income	495,505	389,947
Total Revenue	<u>1,249,526</u>	<u>41,423,947</u>
 EXPENDITURES/EXPENSES:		
Program Expenses		
Technical Assistance/Capacity Building	432,523	545,926
WET Program Funding	6,750	
SHB Program Funding	94,010	
PEI Statewide Programs	35,391,976	13,492,750
Evaluation Expense	1,908,627	1,616,254
Planning Expense	407,597	906,616
Total Project Expense	<u>38,241,483</u>	<u>16,561,546</u>
General and Administration	<u>1,150,716</u>	<u>750,093</u>
Total Expenses	<u>39,392,199</u>	<u>17,311,639</u>
 Change in Fund Balance/Net Position	(38,142,673)	24,112,308
 FUND BALANCE/NET POSITION		
Beginning of year	<u>128,720,329</u>	<u>104,608,021</u>
End of year	<u>\$ 90,577,656</u>	<u>\$ 128,720,329</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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, 2013 and 2012, 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, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY (Continued)

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

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

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

B. BASIS OF PRESENTATION

The Statement of Net 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, 2013 AND 2012

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, 2013 AND 2012

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 \$155,220 in fiscal year 2012 for the Workforce Education Training (WET) program as a scholarship fund to be spent in the 2013 fiscal year. It is classified as unearned revenue in 2012 until it was recognized in the current period.

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, 2013 AND 2012

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.

H. FUND BALANCE (Continued)

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

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

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

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

2. CASH AND INVESTMENTS

A. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash in banks	\$ 216,032	\$ 54,323
Money Market Account		468,668
LAIF	14,017,420	38,913,540
Money Market Trust	16,740	-
	<u>\$ 14,250,192</u>	<u>\$ 39,436,531</u>

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

Cash in Bank

As of June 30, 2013 and 2012, CalMHSA's balances per the bank of \$216,032 and \$54,323 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, 2013, CalMHSA's had cash in a money fund managed by Morgan Stanley Smith Barney LLC.

2. CASH AND INVESTMENTS (Continued)

Local Agency Investment Fund

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

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

B. Investments

Investments are reported in the accompanying Statement of Net Position 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.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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.

B. Investments (continued)

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	\$ 42,732,847	\$ 30,966,151	\$ 15,682,994
Corporate Notes	38,686,271	23,003,278	11,766,694
Total	<u>\$ 81,419,118</u>	<u>\$ 53,969,429</u>	<u>\$ 27,449,688</u>

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

Standard & Poor Ratings as of June 30, 2013

<u>Investment Type</u>	<u>Total</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>
Federal Agencies	\$42,732,847	\$42,732,847	\$ -	\$ -
Corporate Notes	38,686,271	-	17,643,174	21,043,098
Total	<u>\$81,419,118</u>	<u>\$42,732,847</u>	<u>\$17,643,174</u>	<u>\$21,043,098</u>

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

Concentration of Credit Risk

<u>Investment</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
Fed Natl Mtg Assn	Federal Agencies	\$ 5,626,437	7%
WestPac Banking Corp NY YCD	Corporate Bonds	\$ 5,003,700	6%
Royal Bank of Canada NY YCD	Corporate Bonds	\$ 5,001,400	6%
Fed Home LN MTG Corp	Federal Agencies	\$ 4,993,693	6%
Fed Home LN BK	Federal Agencies	\$ 4,972,833	6%
Fed Natl MTG Assn	Federal Agencies	\$ 4,971,889	6%
Pepsico Inc	Corporate Bonds	\$ 4,956,633	6%
Fed Home LN MTG Corp	Federal Agencies	\$ 4,708,037	6%
Coca-Cola Co	Corporate Bonds	\$ 4,683,334	6%
Wells Fargo & Company	Corporate Bonds	\$ 4,022,840	5%
Walt Disney Company	Corporate Bonds	\$ 4,022,080	5%

B. Investments (continued)

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

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

3. ACCOUNTS RECEIVABLE

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

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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 2013 financial statements for subsequent events through December 4, 2013, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE YEAR ENDED JUNE 30, 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
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)
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 Expenses	<u>67,299,342</u>	<u>39,392,199</u>	<u>27,907,143</u>
Change in Fund Balance/Net Assets	(65,475,942)	(38,142,673)	(28,481,017)
FUND BALANCE/NET ASSETS			
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>

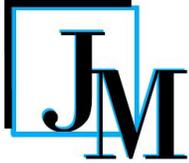
CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY

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

FOR THE YEAR ENDED JUNE 30, 2012

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

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 the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining information of California Mental Health Services Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the California Mental Health Services Authority's basic financial statements, and have issued our report thereon dated December 4, 2013.

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.

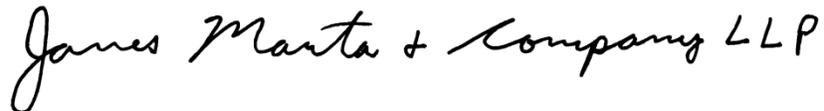
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given 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
December 4, 2013