TRI-CITY MENTAL HEALTH CENTER

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Tri-City Mental Health Center
Pomona, California

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-City Mental Health Center (Tri-City), as of and for the years ended June 30, 2013, and 2012 and the related notes to the financial statements, which collectively comprise Tri-City's basic financial statements as listed in the table of contents.

Management's 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.

Auditors' 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 *Governmental 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Tri-City Mental Health Center as of June 30, 2013 and 2012, and the respective changes in financial position, and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As described in Note 3 to the financial statements, Tri-City adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 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, 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2013, on our consideration of Tri-City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tri-City's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 16, 2013

The following discussion of the Tri-City Mental Health Center ("Tri-City", a Municipal Joint Powers Authority ("JPA") financial statements presents a narrative overview and analysis of Tri-City's financial activities for the fiscal years ended June 30, 2013, 2012 and 2011. The information presented here should be read in conjunction with Tri-City's basic financial statements and other information furnished in this report.

BACKGROUND

General

Tri-City was formed as a JPA on June 21, 1960 pursuant to the Short-Doyle Act (included in the Welfare and Institutions Code of California) through the execution of a joint powers agreement among the cities of Pomona, Claremont and La Verne. From inception to the current period, Tri-City has provided mental health care services for the residents of Pomona, Claremont and La Verne. These services are provided to all age groups including children (0-15), transition age youth (16-25), adults (26-59) and older adults (60+), and in most cases the consumers are either eligible under the Medi-Cal program or are indigent.

Over the past four years, Tri-City Mental Health Center has continued to develop its operations into a system of care for the residents of the three cities. This includes the continuation of Tri-City's outpatient clinics and the implementation of new programs approved through the Mental Health Service Act (MHSA).

Tri-City's outpatient clinics located in Pomona provided services to approximately 1,100 unduplicated clients during the past fiscal year. Through the efforts to provide a continuum of care and in order to meet the needs of Tri-City's residents, the clinical team continually implement new groups available to the community both at the outpatient clinics and at the Wellness Center which opened in November 2011 and has increased the hours of clinic operations to include later appointment hours for children and their families. In addition, Tri-City has provided high intensity mental health services to approximately three hundred clients through Tri-City's Full Service Partnership (FSP) MHSA program.

As mentioned above, in addition to the outpatient clinical operations, Tri-City has service programs established through MHSA. The MHSA Community Services and Supports programs (CSS) approved in June 2009 have been in full operation for the past two years. These services include Community Navigators, Supplemental Crisis Services, Field Capable Support for Older Adults, Full Service Partnership (FSP) and Wellness Center programs. In March 2010, the MHSA Prevention and Early Intervention programs (PEI) were approved and implemented during fiscal 2010-11, including the granting of funds to communities and schools as approved under the Community Wellbeing and Student Wellbeing Programs. The PEI programs concentrate on the building of the communities' capacity to understand mental illness and cultural differences in order to establish methods of prevention and early intervention as well as to eliminate the negative stigma that has traditionally been linked to mental illness. As a result of further stakeholder processes, the PEI plan was updated to include additional PEI programs in fiscal 2011-12. In January 2012, the MHSA Innovation (INN) plan was approved. The INN programs include Modification to Cognitive Enhancement Therapy and Integrated Services. These programs began implementation in February 2012. During the current fiscal 2012-13 two additional MHSA plans were approved by the Governing Board. The Workforce, Education and Training (WET) plan that addresses the education and training of current mental health provider staff and outreach to the community to develop a pool of future mental health providers and volunteers was approved in November 2012. The Capital Facilities/Technological Needs (CFTN) plan was approved in May 2013. This plan included three technology projects to implement new technology to provide mental health services outcome support, improve and enhance existing systems and provide computing access to consumers.

Funding of Tri-City's operations come from Realignment (initiated in 1991 under the Bronson-McCorquodale Act), MHSA (initiated in 2005 through the passage of Proposition 63) and Medi-Cal reimbursement from the federal government and State. Realignment, which is funded from California State taxes, is the only source of funds besides Medi-Cal reimbursement that can be used to provide Medi-Cal services at the outpatient clinics, as well as non Medi-Cal clinic services and operating costs. MHSA funding can only be used for MHSA programs and can be leveraged by Medi-Cal reimbursement for services provided through FSP.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include the *Statements of Net Position*, the *Statements of Revenues, Expenses and Changes in Net Position* and the *Statements of Cash Flows*. These Statements should be read in conjunction with *the Notes to the Financial Statements.* A further description of these Statements is provided below.

The *Statements of Net Position* presents information on all of Tri-City's assets and liabilities, with the difference between the two reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Tri-City is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Position* presents information showing how Tri-City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The *Statements of Cash Flows* reports inflows and outflows of cash and is classified into four major components:

- *Cash flows from operating activities* include transactions and events reported as components of the operating income in the Statements of Revenues, Expenses, and Changes in Net Position.
- *Cash flows from non-capital financing activitie*s include proceeds from Realignment, funds received from the State of California for the implementation and provision of services as approved under the Mental Health Services Act, and contributions from member cities.
- *Cash flows from capital and related financing activities* include the borrowing and repayment (principal and interest) of capital-related debt and the acquisition and construction of capital assets.
- *Cash flows from investing activities* represent proceeds from the receipt of interest.

The following table shows the net position as of June 30, 2013, 2012 and 2011:

Statements of Net Position

	2013	2012	2011
Assets			
Current Assets	$ 24,804,706	$ 20,585,891	$ 24,117,788
Property and Equipment, Net	5,961,110	5,659,967	4,119,097
Other Assets	93,604	82,512	324,802
Total Assets	30,859,420	26,328,370	28,561,687
Liabilities			
Current Liabilities	11,489,108	6,965,750	6,140,634
Noncurrent Liabilities (including Unearned Revenues)	3,786,293	5,534,872	7,412,907
Bankruptcy Liabilities	10,549,311	11,440,897	12,653,005
Total Liabilities	25,824,712	23,941,519	26,206,546
Net Position			
Net Investment in Capital Assets	4,982,562	4,659,967	3,256,023
Restricted for MHSA Programs	5,515,946	4,891,978	6,201,832
Unrestricted	(5,463,800)	(7,165,094)	(7,102,714)
Total Net Position	$ 5,034,708	$ 2,386,851	$ 2,355,141

- **Total Assets** are comprised of cash, accounts receivable, capital assets and deposits.

    - *Comparison of June 30, 2013 to June 30, 2012*. At June 30, 2013, Tri-City reflected an increase in total assets of approximately $4.5 million. Total cash and investments at June 30, 2013 was approximately $19.9 million reflecting an increase of $4.2 million from the balance at June 30, 2012 of $15.7 million. In fiscal 2013 Tri-City received approximately $4.8 million in funds relating to prior years activity. Tri-City received $2.1 million of the MHSA 2012 allocations for Tri-City's MHSA programs originally anticipated to be received in fiscal 2012. Also, during the year Tri-City received approximately $795 thousand from the State related to EPSDT audit settlements for fiscal years 2002 and 2006. In addition, due to the change in the State's information systems, collections on Medi-Cal claims were slow in fiscal 2012 and in the first nine months of fiscal 2013. However, during fiscal 2013, Tri-City received approximately $1.8 million in delayed payments for fiscal 2012 Medi-Cal services, thereby increasing the cash balances. Offsetting the increase of cash Tri-City distributed approximately $892 thousand for payments on its Unsecured

Bankruptcy Claims. The increase in net property of approximately $301 thousand also contributed to the increase in total assets. The increase in property is due to the acquisition of property located in Pomona as approved under Tri-City's MHSA Permanent Supportive Housing plan.

- *Comparison of June 30, 2012 to June 30, 2011*. At June 30, 2012, Tri-City reflected a decrease in total assets of approximately $2.2 million. Total cash and investments at June 30, 2012 was approximately $15.7 million reflecting an decrease of $5 million from the balance at June 30, 2011 of $20.7 million. During fiscal 2012 Tri-City was scheduled to receive approximately $5.4 million in funds from CAL DMH for Tri-City's approved MHSA programs, however due to timing only $3.3 million was received through June 2012 with the remaining $2.1 million received at the beginning of July 2012. In fiscal 2011 Tri-City received MHSA funding of approximately $10.7 million. Of the amount received in fiscal 2011, approximately $4.0 million was received in June 2011 to fund approved MHSA program services that were provided in fiscal 2012. In line with the California State's budget legislation, Assembly Bill 100 (AB100) that was passed in March 2011, CAL DMH transferred to all counties (including Tri-City) their prior years' unrequested and unapproved MHSA funds. Tri-City received approximately $6.6 million of these funds for MHSA programs that had not been previously requested or approved. As new MHSA programs and updates are approved, Tri-City will draw down on the $6.6 million previously received. In addition to the decrease of cash from MHSA operations, in August 2011 Tri-City distributed approximately $1.2 million for the payment of Class 2 Unsecured Bankruptcy Claims. Offsetting the decrease in cash is the increase in accounts receivable of approximately $1.5 million and the increase in net property of approximately $1.5 million. The increase in net accounts receivable reflects the growth in Tri-City's Full Service Partnership MHSA programs and the slower State processing of Medi-Cal claims due to changes in the State's information systems. It is expected that the State will start catching up with payments of Medi-Cal claims in the second quarter of fiscal 2013. The increase in property is due to the completion of the Wellness Center and the renovations to the outpatient clinic.

- **Total Liabilities** are comprised of current liabilities, mortgage note payable, bankruptcy liabilities and unearned MHSA revenues.

  - *Comparison of June 30, 2013 to June 30, 2012*. Liabilities increased by approximately $1.9 million from $23.9 million at June 30, 2012 to $25.8 million at June 30, 2013. This change reflects the increase of approximately $2.2 million in total unearned MHSA revenues. At June 30, 2013, unearned MHSA revenues were approximately $10.5 million ($7.6 million in current liabilities and $2.8 million in noncurrent liabilities) as compared to $8.7 million at June 30, 2012 ($4.1 million in current liabilities and $4.6 million in noncurrent liabilities). The unearned MHSA revenue amounts recorded in current liabilities reflect the receipt of MHSA funds in fiscal 2013 and 2012 not used during that fiscal year, but allocated to be used at the beginning of the next fiscal year per an approved MHSA plan. The unearned MHSA revenue recorded in noncurrent liabilities at June 30, 2013 and 2012 reflect the receipt of MHSA funds that cannot be used until new or updated MHSA programs have been approved through the required MHSA process, which includes delegate/stakeholder meetings and input and final Governing Board approval. During fiscal 2013 and 2012, as a result of new MHSA programs and updates, approximately $1.8 million and $2 million of the noncurrent unearned MHSA revenue was identified as approved and available to be spent in fiscal 2014 and 2013, respectively. In addition to the increase in unearned MHSA revenue, there was an increase in other current liabilities reflecting the growth in Tri-City's MHSA services and staffing. Offsetting these increases was a decrease in bankruptcy debt which reflects the bankruptcy distributions of approximately $892 thousand in fiscal 2013.

  - *Comparison of June 30, 2012 to June 30, 2011*. Liabilities decreased by approximately $2.3 million from $26.2 million at June 30, 2011 to $23.9 million at June 30, 2012. At June 30, 2012 total liabilities reflect a decrease of approximately $1.9 million in unearned MHSA revenues. At June 30, 2012, unearned MHSA revenues were approximately $8.7 million ($4.1 million in current liabilities and $4.6 million in noncurrent liabilities) as compared to $10.6 million at June 30, 2011 ($4.0 million in current liabilities and $6.6 million in noncurrent liabilities). The unearned MHSA revenue amounts recorded in current liabilities reflect the receipt of MHSA funds in fiscal 2012 and 2011 not used during that fiscal year, but allocated to be used at the beginning of the next fiscal year. The unearned MHSA revenue recorded in noncurrent liabilities at June 30, 2012 and 2011 reflect the receipt of MHSA funds in fiscal 2011 that cannot be used until new or updated MHSA programs have been approved through the required MHSA process, which includes delegate/stakeholder meetings and input and final Governing Board approval. During fiscal 2012, as a result of new MHSA programs and updates, approximately $2 million of the noncurrent unearned MHSA revenue was identified as approved and available to be spent in fiscal 2013. In addition to the decrease in unearned revenue, bankruptcy liabilities decreased approximately $1.2 million reflecting a payment made in fiscal 2012. Offsetting some of the decrease in liabilities was a $140 thousand increase in mortgage debt due to the refinancing of a previous loan.

- **Net Position** is the difference between total assets and liabilities.

  - *At June 30, 2013*. Tri-City's net position at June 30, 2013 was approximately $5.0 million. This was comprised of $30.8 million of assets less total liabilities of $25.8 million. As a result of Tri-City filing for bankruptcy in fiscal 2004, the total liabilities at June 30, 2013 include approximately $10.5 million in bankruptcy liabilities that remain outstanding.

- *At June 30, 2012*. Tri-City's net position at June 30, 2012 was approximately $2.4 million. This was comprised of $26.3 million of assets less total liabilities of $23.9 million. As a result of Tri-City filing for bankruptcy, the total liabilities at June 30, 2012 include approximately $11.4 million in bankruptcy liabilities.

The following table shows the change in net position during the fiscal years ended June 30, 2013, 2012, and 2011:

Revenue, Expenses and Changes in Net Position

	2013	2012	2011
Operating Revenues:			
Medi-Cal - Federal Financial Portion	$ 2,999,640	$ 3,117,733	$ 2,846,058
Medi-Cal - State EPSDT	1,664,800	1,208,677	1,143,816
Medicare	12,186	11,580	17,627
Contracts	20,389	21,000	7,667
Rental Income	58,775	35,264	36,954
Other Operating Income	10,065	5,256	8,235
Total Operating Revenue	4,765,855	4,399,510	4,060,357
Operating Expenses	$ 14,196,311	$ 13,112,900	$10,280,886
(Loss) from Operations	(9,430,456)	(8,713,390)	(6,220,529)
Non Operating Revenues, Net	11,777,101	8,764,962	8,554,835
Income before Special Items	2,346,645	51,572	2,334,306
Special Items:			
Settlement of Bankruptcy Debt	$ 301,864	$ --	$ 4,013
Reorganization Costs- Professional Fees	(652)	(19,862)	(64,599)
Total Special Items	301,212	(19,862)	(60,586)
Change in Net Position	2,647,857	31,710	2,273,720
Net Position, Beginning of Year	2,386,851	2,355,141	81,421
Net Position, End of Year	$ 5,034,708	$ 2,386,851	$ 2,355,141

Fiscal Year 2013 to 2012 Comparisons

- **Operating Revenues** — Operating revenues increased approximately $366 thousand. This increase is primarily due to receipt of approximately $500 thousand relating to a final 2006 EPSDT State audit settlement which was not previously determinable. This increase was offset by lower Federal Financial Participation (FFP) revenues of approximately $118 thousand and lower EPSDT revenues of approximately $49 thousand for services provided in fiscal 2013. Although operating revenues from the MHSA Full Service Partnership (FSP) programs increased this was offset by a reduction in clinic outpatient revenues for services provided in fiscal 2013. Due to the increased community awareness of Tri-City's mental health programs and services, the Agency experienced a 90% increase in indigent consumers that presented at Tri-City for outpatient clinic services and enrollment in Tri-City's Full Service Partnership (FSP) programs. As a result, Tri-City's direct services to non-funded consumers (i.e. not eligible to receive Medi-Cal benefits) increased from 10.3% of its total outpatient/FSP services in fiscal 2012 to 17.6% of its total outpatient/FSP services in fiscal 2013, thereby decreasing Medi-Cal revenues. As was experienced in fiscal 2012, filling vacant clinical staff positions continues to be a challenge due to the limited workforce in the tri-city and surrounding areas. In addition to Medi-Cal revenues, Tri-City received rental income from the lease of supportive housing to its clients of approximately $59 thousand in fiscal 2013 and $35 in fiscal 2012.

- **Operating Expenses** — Operating expenses increased by approximately $1.1 million (8.2%) in fiscal 2013 as compared to fiscal 2012. The new MHSA Innovation programs established at the end of fiscal 2012 and the new MHSA WET and CFTN programs established at the end of fiscal 2013 accounted for approximately $600 thousand of this increase. In addition Tri-City experienced growth in its previously established CSS and PEI programs that required the hiring of additional staff and the expansion of office space. Costs related to the increase in these programs' services was approximately $755 thousand. Offsetting the increased costs for the MHSA programs was a decrease of approximately $270 thousand in the clinic outpatient operating costs. This decrease was primarily related to lower clinical salaries of approximately $300 thousand due to vacant positions.

- **Loss from Operations** — Operating losses do not include revenues from Realignment funding or MHSA funding, which are Tri-City's two major sources of funding. These funds are included in non-operating revenues as discussed below. Therefore, the financial statement presentation reflects operating losses of approximately $9.4 million in fiscal 2013 compared to $8.7 million in 2012. The increase in operating losses resulted from higher operating costs as discussed above of approximately $1.1 million which were reduced by higher operating revenues of approximately $366 thousand.

- **Non-Operating Revenues, Net** — Non-operating revenues were approximately $11.8 million in fiscal 2013 and $8.8 million in fiscal 2012, an increase of approximately $3 million. This increase is mainly due to higher MHSA funding reflected as non-operating revenues in fiscal 2013. Approximately $521 thousand of the increase is the result of the adoption of the new Workforce Education and Training (WET) plan and the Capital Facilities and Technology Needs (CFTN) plans in fiscal 2013. In addition, the Innovation (INN) plan that was adopted mid fiscal 2012 is now in full swing and the non-operating revenues from this plan increased by approximately $489 thousand. The remaining $2 million increase is mainly due to the timing of when MHSA funds were received and available for expenditures that were approved under the CSS and PEI programs. In the past, the State required a reduction to the MHSA expenditure plan funding request if funds previously received for prior year budgeted expenditures were not spent. Therefore, the non-operating revenues recorded in fiscal 2012 and prior reflected the approved funding amount. In late fiscal 2012, the State changed the mechanism for distributing the MHSA funds, whereby no funds were withheld. As a result, all funds requested and or approved for expenditure were received and available for use in 2013.

- **Special Items** — Special items are the result of Tri-City's bankruptcy filings and includes the related final settlement of debt and professional fees. In fiscal 2013, the State settled an ongoing EPSDT audit appeal filed by Los Angeles County's Department of Mental Health (LACDMH). This EPSDT audit appeal was for the fiscal year ending June 30, 2002 and the settlement resulted in additional EPSDT reimbursement of $295,340 for services provided by Tri-City during that period. In accordance with a prior mediation agreement between the State and Los Angeles County, this amount was paid to Tri-City, thereby adjusting LACDMH's previously filed bankruptcy claim. This amount was reflected as Bankruptcy Debt Settlement income. In July 2010 Tri-City made a distribution to its Class 2 Unsecured Creditors. A small amount of the claims paid under this distribution remained outstanding and unclaimed at the end of June 30, 2013. In accordance with the Bankruptcy Plan, unclaimed distributions over two years old become the property of Tri-City and therefore, in fiscal 2013, Tri-City recognized $7 thousand as Bankruptcy Debt Settlement income.

- **Net Position —** Tri-City's net position improved by $2.6 million during the fiscal year ended June 30, 2013. Realignment funding and Medi-Cal revenues generated from Tri-City's outpatient clinic services provided during the year exceeded the expenses incurred to provide outpatient services by approximately $1.1 million. In addition, Tri-City received approximately $500 thousand relating to a final 2005-06 EPSDT State audit settlement which was not previously determinable. Medi-Cal revenues and MHSA funding of MHSA programs exceeded MHSA program expenses by approximately $1 million.

Fiscal Year 2012 to 2011 Comparisons

- **Operating Revenues** — Operating revenues increased approximately $339 thousand. Operating revenues from the Federal Financial Participation (FFP) for Medi-Cal services increased approximately $272 thousand from $2.85 million in fiscal 2011 to $3.12 million in fiscal 2012 and operating revenues from the State of California's EPSDT program for Medi-Cal services provided to Medi-Cal eligible youth under the age of 21 increased by approximately $65 thousand. Operating revenues from the MHSA Full Service Partnership (FSP) programs increased by $1.1 million, which reflected the full implementation and building of the program which started in fiscal 2011. Offsetting this increase was a reduction in clinic outpatient revenues by approximately $795 thousand or 26%. Approximately $178 thousand of the clinic outpatient decrease was due from lower Medi-Cal outpatient services. This is mainly due to the reassessment of many adult clients that required more intensive care and were therefore discharged from the outpatient clinic and placed in FSP programs. In addition, during the year, the adult outpatient clinical staff productivity decreased due to the intensive training from the Best Practices department and the training related to the implementation of Tri-City's new Electronic Health Records system. Approximately $500 thousand of the decrease in net operating revenues relate to the adjustments made in fiscal 2011 to reflect higher EPSDT reimbursement from prior years. In addition, in fiscal 2011 and 2012 the provision for contractual disallowances reflected a reduction in prior years' Medi-Cal reserves of $220 thousand and $100 thousand, respectively, as a result of better documentation and audit reviews.

- **Operating Expenses** — Operating expenses increased by approximately $2.8 million (27.7%) in fiscal 2012 as compared to fiscal 2011. Full operations of the MHSA CSS and PEI programs that were implemented during fiscal 2010 and 2011, as well as new Innovation (INN) programs approved during the year, accounted for an increase in operating expenses of approximately $2.5 million. In addition, the increase in outpatient clinic costs was approximately $285 thousand (5.4%). The major increases in operating expenses were salaries and benefits of approximately $1.7 million, other operating expenses of approximately $643 thousand and depreciation of $208 thousand. MHSA program salaries and benefits increased by approximately $1.4 million as a result of filling new and vacant positions approved under the CSS, PEI and INN programs. Outpatient clinic salaries and benefits increased by approximately $334 thousand. In fiscal 2011 there was a shifting and reorganization of personnel from the clinic operations to the MHSA operations leaving some clinic staff positions vacant during that year. Most of those positions were filled during the current year. The increase in other operating expenses was due to the MHSA operations and included higher costs for the PEI Student Wellness and Community Capacity Building programs as well implementation of newly approved PEI and INN programs.

- **Loss from Operations** — Operating losses do not include revenues from Realignment funding or MHSA funding, which are Tri-City's two major sources of funding. These funds are included in non-operating revenues as discussed below. Therefore, the financial statement presentation reflects operating losses of approximately $8.7 million in fiscal 2012 compared to $6.2 million in 2011. The increase in operating losses resulted from higher MHSA operating costs of approximately $2.5 million as a result of full operations of the CSS and PEI programs implemented in fiscal 2010 and 2011, and the new PEI and INN programs implemented in fiscal 2012. Funding of the operating losses is primarily provided through the Realignment revenues and MHSA funding that are classified as non-operating revenues below.

- **Non-Operating Revenues, Net** — Non-operating revenues increased by approximately $210 thousand mainly due to higher Realignment funding.

- **Special Items** — Special items are the result of Tri-City's bankruptcy filings and includes the related final settlement of debt and professional fees. The professional fees incurred for Tri-City's reorganization under the Bankruptcy Plan was $20 thousand in fiscal 2012 as compared to $65 thousand in 2011. In April 2009, Tri-City made its first distribution to its Class 2 Unsecured Creditors. A small amount of the claims paid under these distributions remain outstanding and unclaimed. In accordance with the Bankruptcy Plan, unclaimed distributions over two years old become the property of Tri-City and therefore, in fiscal 2011, Tri-City recognized $4 thousand as Bankruptcy Debt Settlement income.

- **Net Position —** Tri-City's net position slightly improved by $32 thousand during the fiscal year ended June 30, 2012. Realignment funding and Medi-Cal revenues generated from Tri-City's outpatient clinic services exceeded the expenses incurred to provide outpatient services by approximately $292 thousand. This increase to net position was offset by MHSA programs implemented that incurred costs which exceeded MHSA funds and Medi-Cal revenues by approximately $260 thousand. Most of the decrease to net position from MHSA program operations reflects the increase in depreciation expense of capital assets as a result of the new Wellness Center that was opened in November 2011.

Economic Factors

As a result of the California State Budget crisis at the end of fiscal 2011, the Governor proposed changes to the current realignment of mental health services and the funding of those services. In March 2011, the State Legislature passed AB100 which eliminated the State's Department of Mental Health and transferred a major portion of the administration of the MHSA to the counties with oversight functions transferring to California's Department of Health Care Services. In addition, other legislation was passed to realign additional mental health services previously run by the State to county Mental Health Plans. In order to realign these mental health services and functions, various State Trailer Bills were passed to change the mechanism of funding the mental health services and in November 2012 the voters passed the Governor's proposed tax increases to fund other social needs, thereby solidifying the mental health funding. As a result, the State has created various mental health funds that come from State sales tax. These funds are allocated for newly realigned services ("2011" realignment) and for the continued funding of other mental health services provided by Mental Health Programs ("1991" realignment). Since Tri-City is not a Mental Health Plan, it is not required to provide mental health services realigned under the 2011 realignment, but will continue to provide outpatient mental health services that are funded through "1991" realignment. In fiscal 2013 Tri-City experienced a 3.4% increase in "1991" realignment. Based on the current State budget and the analysis prepared by the California Mental Health Directors Association (CMHDA), "1991" realignment for fiscal 2014 is expected to increase up to 3%.

In November 2004, California voters approved Ballot Proposition 63 and the Mental Health Services Act (MHSA) became State law effective January 1, 2005. The MHSA addresses a broad continuum of prevention, early intervention and service needs, and the necessary infrastructure, technology and training elements that will effectively support this system, with the purpose of promoting recovery for individuals with serious mental illness. The MHSA is funded through the imposition of a 1% State income tax on personal income in excess of $1 million. Tri-City relies on MHSA funds to provide an array of mental health services approved under its MHSA programs. In August 2013, the State issued it MHSA expenditure report for fiscal 2014. In this report, the State estimated that MHSA funds to be collected for fiscal 2013 will increase by approximately 20% over the fiscal 2012 collections. This growth was reflected in the MHSA funds received by Tri-City in fiscal 2013. However, State MHSA funds, which are based on a 1% tax on personal incomes over 1 million, can fluctuate based on new events and economic pressures not currently known. Per the report the State has projected that the growth experienced in fiscal 2013 will not be experienced in fiscal 2014 and may return to the previous 2012 level.

Liquidity and Bankruptcy

At June 30, 2013, Tri-City had approximately $19.9 million in cash. Of this amount, approximately $13.1 million is cash available and restricted for the implementation and provision of services under approved MHSA programs, $4.0 million is unrestricted cash for Tri-City's outpatient clinic operations and $2.8 million is restricted for future MHSA programs developed and recommended through the MHSA process and approved by Tri-City's Governing Board. In accordance with the Bankruptcy Plan, Tri-City's unrestricted cash for the clinic operations is the only source that can be used to fund payments on allowed pre-petition claims when such cash balances exceed current operating costs and cash reserves identified in the Plan. On April 9, 2009, Tri-City made its first payment to Class 2 Unsecured creditors for their allowed claims. Through June 30, 2013, with the exception of payments distributed that have not been cashed or claimed, all of the Class 2 General Unsecured claims were paid in full. In addition, in May 2013 the first claim payment was made on the allowed Unsecured Class 3 California Department of Mental Health (CAL DMH) claims and Unsecured Class 4 LAC DMH claims representing 4% of each Class' allowed claims. Based on Tri-City's current Bankruptcy Plan as filed with the Court and confirmed on August 6, 2007, the Agency projects that it will be able to support its current operations over the next fiscal year and maintain a cash reserve. Management, however, cannot project the amount of cash that will be available for additional future payments of allowed claims.

Request for Information

These financial statements are designed to provide our citizens a general overview of Tri-City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Tri-City Mental Health Center, 1717 N. Indian Hill Boulevard, #B, Claremont, California 91711.

TRI-CITY MENTAL HEALTH CENTER

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets:		
Cash and investments *(Note #4)*	$ 3,981,823	$ 2,987,531
Restricted cash and investments *(Note #4)*	15,892,076	12,706,417
Accounts receivable, net of allowance for uncollectible accounts of $636,283 and $634,407 at June 30, 2013 and 2012, respectively *(Note #5)*	4,930,807	4,891,943
Total Current Assets	24,804,706	20,585,891
Noncurrent Assets:		
Capital assets, net of accumulated depreciation *(Note #6)*	5,961,110	5,659,967
Deposits *(Note #2g)*	93,604	82,512
Total Noncurrent Assets	6,054,714	5,742,479
Total Assets	30,859,420	26,328,370
LIABILITIES		
Current Liabilities:		
Accounts payable	392,736	222,738
Accrued payroll liabilities	151,910	156,304
Accrued vacation and sick leave	709,261	624,563
Other accrued liability	1,557	--
Due to other governments	706,314	307,314
Estimated third party payor settlements *(Note #8)*	1,882,243	1,507,522
Unearned MHSA revenues *(Note #11)*	7,623,540	4,125,857
Current portion of mortgage note payable *(Note #10)*	21,547	21,452
Total Current Liabilities	11,489,108	6,965,750
Noncurrent Liabilities:		
Mortgage note payable *(Note #10)*	957,001	978,548
Bankruptcy Liabilities *(Note #7)*	10,549,311	11,440,897
Unearned MHSA revenues *(Note #11)*	2,829,292	4,556,324
Total Noncurrent Liabilities	14,335,604	16,975,769
Total Liabilities	25,824,712	23,941,519
NET POSITION		
Net investment in capital assets	4,982,562	4,659,967
Restricted for MHSA programs *(Note #12)*	5,515,946	4,891,978
Unrestricted	(5,463,800)	(7,165,094)
Total Net Position	$ 5,034,708	$ 2,386,851

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

TRI-CITY MENTAL HEALTH CENTER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Revenues:		
Medi-Cal, net of provision for disallowances	$ 4,664,440	$ 4,326,410
Medicare	12,186	11,580
Contracts	20,389	21,000
Rental income	58,775	35,264
Patient fees and insurance	3,653	2,245
Other income	6,412	3,011
Total Operating Revenues	4,765,855	4,399,510
Operating Expenses:		
Salaries, wages and benefits	10,052,522	9,051,422
Facility and equipment operating costs	1,094,283	1,055,434
Client lodging, transportation, and supply expense	505,677	313,074
Depreciation	558,573	384,977
Other operating expense	1,985,256	2,307,993
Total Operating Expenses	14,196,311	13,112,900
Operating Loss	(9,430,456)	(8,713,390)
Non-Operating Revenues (Expenses):		
Realignment	3,656,160	3,534,813
MHSA funding	8,052,060	5,171,836
Contributions from member cities	70,236	70,073
Interest income	47,790	63,300
Interest expense	(49,205)	(75,258)
Other non-operating income	60	198
Total Non-Operating Revenues (Expenses)	11,777,101	8,764,962
Income before Special Items	2,346,645	51,572
Special Item:		
Settlement of Bankruptcy Debt *(Note #2d)*	301,864	--
Reorganization Costs- Professional Fees	(652)	(19,862)
Total Special Items	301,212	(19,862)
Change in Net Position	2,647,857	31,710
Net Position at Beginning of Year	2,386,851	2,355,141
Net Position at End of Year	$ 5,034,708	$ 2,386,851

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

TRI-CITY MENTAL HEALTH CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 5,116,569	$ 3,278,653
Cash payments to suppliers and contractors	(3,424,751)	(3,677,033)
Payments to employees	(9,972,218)	(8,828,113)
Payments on Bankruptcy Class 2-General Unsecured Claims	(891,586)	(1,212,108)
Cash received from CAL DMH on fiscal 2000 audit settlement –pre-petition	--	307,314
Special items *(Note #2d)*	301,212	(19,862)
Net Cash Used by Operating Activities	(8,870,774)	(10,151,148)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funding from Mental Health Services Act	10,221,711	3,291,800
Realignment	3,635,261	3,360,029
Contributions from member cities	73,677	69,383
Net Cash Provided by Noncapital Financing Activities	13,930,649	6,721,212
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(859,716)	(1,673,619)
Principal paid on capital debt	(21,455)	(25,152)
Interest paid on capital debt	(49,205)	(75,258)
Proceeds from refinance of capital debt	--	149,419
Net Cash Used by Capital and Related Financing Activities	(930,376)	(1,624,610)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	50,392	62,670
Sale of investment	60	198
Net Cash Provided by Investing Activities	50,452	62,957
Net Increase (Decrease) in Cash and Cash Equivalents	4,179,951	(4,991,589)
Cash and Cash Equivalents at Beginning of Year	15,693,948	20,685,537
Cash and Cash Equivalents at End of Year	$ 19,873,899	$ 15,693,948

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

TRI-CITY MENTAL HEALTH CENTER

STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Reconciliation of Operating Loss from Operations to Net Cash Provided by Operating Activities:		
Operating Loss	$ (9,430,456)	$ (8,713,390)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	558,573	384,977
Special items, net *(Note #2d)*	301,212	(19,862)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net of allowance	(24,004)	(1,282,978)
(Increase) decrease in deposits	(11,093)	2,022
Increase (decrease) in accounts payable	169,998	(37,817)
Increase (decrease) in accrued payroll liabilities	(4,394)	38,629
Increase in accrued leave	84,698	184,680
Increase in other accrued liabilities	1,557	307,314
Increase in estimate for third party payor settlements	374,721	197,385
(Decrease) in Bankruptcy liabilities	(891,586)	(1,212,108)
Net Cash Used by Operating Activities	$ (8,870,774)	$ (10,151,148)

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

NOTE #1 – DESCRIPTION OF REPORTING ENTITY

Tri-City Mental Health Center (Tri-City) is a Joint Powers Agency formed on June 21, 1960, pursuant to the Short-Doyle Act (included in the Welfare and Institutions Code of California). This act authorizes two or more cities to develop mental health services and facilities. The Joint Powers Agreement among the Cities of Pomona, Claremont and La Verne was amended in December 2007 and calls for a governing body of seven members (two Pomona council members, one Claremont council member, one La Verne council member and one non-elected member from each city). The governing body appoints a local director to administer the program.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Tri-City have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The Government Accounting Standards Board is the recognized standard setting body for establishing governmental accounting and financial reporting principles for governments. Tri-City has adopted the accounting principles and methods appropriate for a governmental enterprise activity.

B. Basis of Accounting

The accounts of Tri-City are organized in a single enterprise (proprietary type) fund and maintained on the accrual basis of accounting. Proprietary fund financial statements include a Statement of Net Position, a Statements of Revenues, Expenses, and Change in Net Position, and a Statements of Cash Flows.

Proprietary fund types are accounted for using the “economic resources” measurement focus and accrual basis of accounting. This means that all assets and liabilities (whether current or non-current) associated with the activity are included on the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position of the proprietary fund present increases (revenues) and decreases (expenses) in total net position. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Realignment funds received from the State are required to be used by the Agency to provide mental health services, however, the Realignment funds received are allocated by the State based on State sales tax receipts. Therefore, the Realignment funds are not directly tied to billing for actual services provided and thus included as a non-operating revenue item. In addition, MHSA funds, as more fully described at *Note #11*, are also reflected as non-operating revenues because they are “Non-Exchange Transactions”.

C. Accounting and Reporting Policies

Tri-City has adopted the accounting principles in accordance with GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Bankruptcy Reporting and Special Items

Tri-City follows the requirements of GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, for the items relating to the bankruptcy transactions and financial statement presentation. Special items include bankruptcy final settlement of debt and professional fees. In fiscal 2013, the State settled an ongoing EPSDT audit appeal filed by Los Angeles County's Department of Mental Health (LACDMH). This EPSDT audit appeal was for the fiscal year ending June 30, 2002 and the settlement resulted in additional EPSDT reimbursement of $295,340 for services provided by Tri-City during that period, thereby adjusting LACDMH's previously filed bankruptcy claim. This amount was reflected as Bankruptcy Debt Settlement income. In addition, in accordance with the Bankruptcy Plan, unclaimed distributions over two years old become the property of Tri-City and therefore, in fiscal 2013 Tri-City recognized $6,524 as Bankruptcy Debt Settlement income.

E. Cash and Cash Equivalents

For the purpose of the Statements of Cash Flows, Tri-City considers cash and cash equivalents as short-term highly liquid investments that are both readily convertible to known amounts of cash. At June 30, 2013 and 2012 Tri-City's cash and cash equivalents included pooled cash balances and investments in the Local Agency Investment Fund (LAIF).

F. Capital Assets

Capital assets owned by Tri-City are capitalized at historical cost. Depreciation is charged to operations using a straight-line method, based on the estimated useful life of the asset. The estimated useful lives of the buildings, automobiles, property, and equipment range from three to twenty years. Capital assets are defined by Tri-City to be land, buildings and improvements, leasehold improvements, furniture and equipment and vehicles with an initial individual cost of more than $1,000. Estimated useful lives of the various classes of property are as follows:

Buildings and improvements	20 years
Equipment	3 years
Furniture	5 years
Vehicles	3 years
Leasehold improvements	5 years

G. Deposits

Deposits include security, rental and utility deposits that have been paid to third parties. At June 30, 2013 and 2012, Tri-City had deposits outstanding in the amounts of $93,604 and $82,512, respectively.

H. Compensated Absences and Sick Leave

Employees can only accrue up to a maximum of 240 hours of vacation time. Therefore, accumulated unpaid vacation is recognized as a liability of Tri-City.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accumulated sick leave benefits are also recognized as liabilities of Tri-City. All employees accrue sick leave at the rate of eleven days per year. Upon separation, the employee can be paid up to 240 sick leave hours. Additional hours over 240 can be rolled into the California Public Employees' Retirement System (PERS) Retirement Plan as additional service credit if the employee is retiring at the time of separation.

Employees that were terminated as a result of the bankruptcy filed on February 13, 2004 did not receive their accrued vacation and sick leave. This liability has been reflected in the Statements of Net Position and will be paid subject to the terms of the final Bankruptcy Plan approved and confirmed by the Court in August 2007. In accordance with the final Plan, as of June 30, 2013 payments of approximately $561 thousand have been made to the terminated employees and represents payment in full of these claims. Employees that remained with Tri-City after the bankruptcy filing continue to accrue vacation and sick time and were allowed to use balances earned prior to the bankruptcy; however, the limitations still apply as to the total hours that can be accumulated.

I. Restricted Resources

When both restricted and unrestricted resources are available for use, it is Tri-City's policy to use restricted resources first for the designated program, and then unrestricted resources as they are needed.

J. Operating Revenues and Expenses

Tri-City's Statements of Revenues, Expenses, and Changes in Net Position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing mental health care services, Tri-City's principal activity. In accordance with GASB Statement No. 33, voluntary non-exchange revenues received are reported as non-operating revenue when all eligibility requirements are met. As such, Tri-City has classified State Realignment and MHSA funds allocated to the Agency for the provision of mental health services, as non-operating revenues. Operating expenses are all expenses incurred to provide mental health care services, other than financing costs.

K. Nominal Fee Provider

Tri-City provides care to patients who meet certain criteria under the California Department of Mental Health Uniform Method for Determining Ability to Pay (UMDAP) policy. When charges are determined to qualify under UMDAP, Tri-City follows collection requirements as stated by UMDAP guidelines.

L. Medi-Cal Revenue

Revenue under third-party payor agreements is reported at the estimated net realizable amounts and is subject to audit and retroactive adjustment. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

M. Realignment Revenue

In 1991, the Medi-Cal program (Short-Doyle Act) was revised under the Bronson-McCorquodale Act, which is known as Realignment. Realignment is a mechanism for the State of California to fund the public mental health system and provide matching funds for the Federal Financial Participation (FFP) of the funding. Through 2012, "1991" Realignment was derived from State Vehicle License Fees and Sales Tax collected at the State level. In 2012, the State created a new "2011" Realignment fund for additional mental health services previously run by the State that will now be operated by the counties that are Mental Health Plans.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Tri-City is not a Mental Health Plan and will not be responsible for these newly realigned services and will not receive “2011” Realignment. However, Tri-City will continue to receive “1991” Realignment. Both of the “1991” and “2011” Realignment will be funded through dedicated State taxes.

N. Mental Health Services Act (MHSA) Revenue

Tri-City receives MHSA funds to perform functions and services included in the approved MHSA plans. MHSA funds are recorded as non-operating revenues on the Statements of Revenues, Expenses and Changes in Net Position when received if all eligibility requirements are met, including time restriction requirements. The MHSA funds received for future fiscal periods are recorded as unearned revenues on the Statements of Net Position.

O. Contributions

Revenues from contributions are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for specific operating purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Every year, the Cities of Pomona, Claremont, and La Verne each contribute operating funds to Tri-City to meet matching requirements under Realignment. These entities are considered related parties as they are member agencies *(Note # 18).*

P. Management’s Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. While management believes that these estimates are adequate as of June 30, 2013 and 2012, it is reasonably possible that actual results could differ from those estimates. Certain estimates relate to accounts receivable *(Note #5)* and estimated third party payor settlements *(Note #8).*

NOTE #3 – NEW ACCOUNTING PRONOUNCEMENTS

<u>Effective In Current Fiscal Year</u>

GASB Statement No. 61 – In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus –an amendment of GASB Statements No. 14 and No. 34.* The objective of this statement is to improve financial reporting for a governmental financial reporting entity. The Statement is effective for periods beginning after June 15, 2012. Tri-City determined that there is no effect on the financial statements.

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Statement is effective for periods beginning after December 15, 2011. Tri-City has determined that there was not a material effect on the financial statements.

NOTE #3 – NEW PRONOUNCEMENTS, Continued

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011. Tri-City implemented this standard as of July 1, 2012.

Effective in Future Years

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012. Tri-City has not determined the effect of this Statement.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The Statement is effective for periods beginning after December 15, 2012. Tri-City has not determined the effect of this Statement.

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25. The* objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of *Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2013. Tri-City has not determined the effect of this Statement.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. Tri-City has not determined the effect of this Statement.

NOTE #3 – NEW PRONOUNCEMENTS, Continued

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Statement is effective for periods beginning after December 15, 2013. Tri-City has not determined the effect of this Statement.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The Statement is effective for financial statements for reporting beginning after June 15, 2013. Tri-City has not determined the effect of this Statement.

NOTE #4 – CASH AND INVESTMENTS

As of June 30, 2013 and 2012, cash and investments in the Statements of Net Position consisted of the following:

	2013	**2012**
Cash on hand	$ 2,500	$ 2,000
Deposits with financial institutions	2,815,606	2,935,824
Deposit with Local Agency Investment Fund (LAIF)	17,055,793	12,756,124
Total Cash and Investments	$ 19,873,899	$ 15,693,948

NOTE #4 – CASH AND INVESTMENTS, Continued

Investments

Tri-City is authorized under California Government Code to make direct investments. Tri-City has adopted an investment policy that reflects this Code.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment.

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. At June 30, 2013 and 2012, $17,055,793 and $12,756,124, respectively, of cash and investments were placed in Tri-City's LAIF account. This agency is not rated.

NOTE #4 – CASH AND 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 California Government Code does 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 laws (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

At June 30, 2013 and 2012, Tri-City's cash balances held by banks and collateralized by the pledging Financial Institutions under the California Government Code, but not in Tri-City's name, was $2,897,239 and $3,331,405, respectively. Amounts held by banks and collateralized under the California Government Code are not FDIC insured.

Investment in State Investment Pool

Tri-City is a voluntary participant in the LAIF that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of Tri-City's investment in this pool is reported in the accompanying financial statements at amounts based upon Tri-City's pro-rate share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Tri-City's cash deposits at the LAIF were $17,055,793 and $12,756,124 at June 30, 2013 and 2012, respectively. The total balance in the LAIF is available for withdrawal. The California Local Agency Investment Fund is not insured or collateralized.

Restricted Cash

Cash reflected on the Statements of Net Position as restricted was $15,892,076 and $12,706,417 at June 30, 2013 and 2012, respectively. Restricted cash represents cash received from MHSA funding that is only available to use for expenditures of MHSA programs approved under Tri-City's MHSA plans.

NOTE #5 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013 and 2012, consisted of the following:

	2013	2012
Accounts Receivable:		
Medi-Cal	$ 4,803,117	$ 4,780,508
Medicare	1,591	3,105
Realignment	609,225	588,326
Grants and Contracts	142,309	140,961
Interest Receivable	10,848	13,450
Total Accounts Receivable	5,567,090	5,526,350
Less: Allowance for Doubtful Accounts	(636,283)	(634,407)
Accounts Receivable, Net	$ 4,930,807	$ 4,891,943

In accordance with Tri-City's contract with the Los Angeles County Department of Mental Health (LAC DMH), a percentage of the Medi-Cal FFP and State EPSDT reimbursement payments received by LAC DMH for mental health services provided by Tri-City to Medi-Cal eligible clients can be withheld by LAC DMH pending preliminary settlement or final audit of the cost reports filed for the contract periods. At June 30, 2013 and 2012, Medi-Cal accounts receivable included approximately $2.2 million and $1.8 million, respectively of Medi-Cal reimbursement received and withheld by LAC DMH for mental health services provided by Tri-City to Medi-Cal eligible clients during the fiscal years 2008 through 2013. The allowance for doubtful accounts is estimated based on the withholding percentages used by LAC DMH, and will be adjusted upon settlement of the cost reports. The provision for doubtful accounts was approximately $377 thousand and $264 thousand for the years ended June 30, 2013 and 2012, respectively.

NOTE #6 – CAPITAL ASSETS

The following schedule summarizes capital asset activity for the years ended June 30, 2013 and 2012:

	Beginning Balance	Additions	Deletions	Ending Balance
June 30, 2013:				
Capital Assets not being depreciated:				
Land	$ 1,034,960	$ 200,000	$ --	$ 1,234,960
Total Capital Assets not being depreciated	1,034,960	200,000	--	1,234,960
Capital Assets, being depreciated:				
Buildings and improvements	5,884,245	371,985	(218,977)	6,037,253
Leasehold improvements	60,739	7,066		67,805
Furniture and equipment	1,203,267	280,665	(161,259)	1,322,673
Total Capital Assets being depreciated	7,148,251	659,716	(380,236)	7,427,731
Less accumulated depreciation for:				
Buildings and improvements	(1,784,167)	(297,600)	218,977	(1,862,790)
Leasehold improvements	(26,193)	(13,269)	--	(39,462)
Furniture and equipment	(712,884)	(247,704)	161,259	(799,329)
Total Accumulated Depreciation	(2,523,244)	(558,573)	380,236	(2,701,581)
Total Capital Assets being depreciated, net	4,625,007	101,143	--	4,726,150
Capital Assets, Net	$ 5,659,967	$ 301,143	$ --	$ 5,961,110

NOTE #6 – CAPITAL ASSETS, Continued

	Beginning Balance	Additions	Deletions and Reclassifications	Ending Balance
June 30, 2012:				
Capital Assets not being depreciated:				
Land	$ 499,960	$ --	$ 535,000	$1,034,960
Construction-in-progress	2,916,970	--	(2,916,970)	--
Total capital assets not being depreciated	3,416,930	--	(2.381,970)	1,034,960
Capital Assets, being depreciated:				
Buildings and improvements	1,941,128	1,561,147	2,381,970	5,884,245
Leasehold improvements	60,739	--	--	60,739
Furniture and equipment	862,449	364,700	(23,882)	1,203,267
Total capital assets being depreciated	2,864,316	1,925,847	2,358,088	7,148,251
Less accumulated depreciation for:				
Buildings and improvements	(1,585,774)	(198,393)	--	(1,784,167)
Leasehold improvements	(11,876)	(14,317)	--	(26,193)
Furniture and equipment	(564,499)	(172,267)	23,882	(712,884)
Total Accumulated Depreciation	(2,162,149)	(384,977)	23,882	(2,523,244)
Total Capital Assets being depreciated, net	702,167	1,540,870	2,381,970	4,625,007
Capital Assets, Net	$ 4,119,097	$ 1,540,870	$ --	$5,659,967

During the fiscal year ended June 30, 2012, Tri-City's Governing Board approved the Agency's MHSA Supportive Permanent Housing Plan that is supported through CSS funds that have been identified for CSS housing. In line with the MHSA Housing Plan, in September 2012 Tri-City acquired a house located in Pomona, California for a total cost of $536,500 to provide affordable housing for up to eight individuals who are Tri-City clients.

In fiscal 2013 and 2012, Tri-City wrote off $380,052 and $23,882 of fully depreciated building improvements, equipment and vehicles that were no longer in use.

NOTE #7 –BANKRUPTCY

On February 13, 2004, Tri-City filed a petition under Chapter 9 of the Bankruptcy Code. The Bankruptcy Court ordered that any entity that wished to participate in any distribution under a Plan generally must either have been properly listed by Tri-City in its List of Creditors or have filed a proof of claim on or before June 24, 2004 (except for claims arising from executory contracts or expired leases rejected by Tri-City and other matters set forth in the Bankruptcy Court's order regarding the claims bar date). Tri-City presented a Plan for the Adjustment of Debts to

NOTE #7 –BANKRUPTCY, Continued

the Bankruptcy Court on January 5, 2005 (also referred herein as the "Plan"). On December 12, 2006, an amended Plan was filed with the Court and subsequently confirmed by the Court on August 6, 2007. The order to confirm the Plan was filed on December 12, 2007 and the Plan became effective on July 18, 2008 after finalization of Tri-City's contract with the Los Angeles County Department of Mental Health (LAC DMH). In September 2011, Tri-City along with CAL DMH and LAC DMH, finalized a Settlement Mediation Agreement which was signed and approved by the Court in January 2012. As a result of this Settlement, Tri-City's Bankruptcy Case was officially closed and recorded on February 21, 2012. Events that gave rise to the Bankruptcy and how it affected the level of Tri-City's mental health services is disclosed in Tri-City's Amended Disclosure Statement dated December 12, 2006. The Plan and Disclosure Statement can be obtained at Tri-City's Website under Archived Documents at http://www.tricitymhs.org.

The Settlement Mediation Agreement noted above stipulates that CAL DMH will allow LAC DMH to pass through to Tri-City any EPSDT payments for Tri-City claims received by LAC DMH from CAL DMH as a result of LAC DMH's EPSDT appeal settlement with CAL DMH, as long as Tri-City agrees that any EPSDT amounts received from LAC DMH will only be used to make payments on its bankruptcy debt. In consideration for this pass through, Tri-City agreed to no longer pursue collection of the Medi-Cal FFP claims for the fiscal years ended 2006 and 2007, which were fully reserved by Tri-City in fiscal 2007 and were subsequently written-off in fiscal 2010. In November 2012, Tri-City received $295,340 resulting from a pass through of the EPSDT audit settlement for fiscal 2001-2002. In accordance with the Mediation Agreement this amount was only used to make a payment to Tri-City's Class 2 General Unsecured bankruptcy claimants on November 30, 2012.

In accordance with the confirmed Plan, Tri-City made payments on allowed Class 2 General Unsecured bankruptcy claims in April 2009, July 2010, August 2011, November 2012 and February 2013 of approximately $346,000, $198,000, $1,212,100, $296,000 and $202,000, respectively, which represented 100% of that Class's allowed claims. In addition, in May 2013, Tri-City made its first payment to Class 3 Unsecured CAL DMH and Class 4 Unsecured LAC DMH claims of approximately $438,000 representing 4% of each Class's allowed claims. The percentage of allowed claims that will be paid in future quarters depends on cash available, as defined per the Plan at the time and over the term of Tri-City's contract with LAC DMH. Per the Plan, payments on allowed claims will terminate concurrent with the termination of Tri-City's contractual relationship with LAC DMH. Tri-City's current contract with LAC DMH scheduled to terminate on June 30, 2013 was extended through 2013-14.

The claims identified as "Bankruptcy Liabilities" in the amount of $10,549,311 and $11,440,897 as of June 30, 2013 and 2012, respectively, reflects the allowed claims based on Tri-City's final reconciliation and settlement of claims as submitted to and approved by the Bankruptcy Court, reduced by the payments made through June 30, 2013 to the claimants.

The bankruptcy liabilities as of June 30, 2013 and 2012 are summarized by Bankruptcy Claim Class as follows:

	2013	**2012**
Class 2 — General Unsecured Claims	$ 88,095	$ 541,705
Class 3 — Unsecured Claim of CAL DMH, net	6,335,918	6,601,182
Class 4 — Unsecured Claim of LAC DMH	4,125,298	4,298,010
Total Bankruptcy Liabilities	$ 10,549,311	$ 11,440,897

NOTE #7 –BANKRUPTCY, Continued

The classes of Bankruptcy claims are described below.

Class 2 – General Unsecured Claims presented below includes the following allowed claims:

	2013	2012
Accounts payable and other accrued liabilities	$ 66,238	$ 245,976
Ford auto loans	--	3,941
Accrued vacation and sick leave	21,857	141,290
Outside contracts liability	--	150,498
Total Class 2 — General Unsecured Claims	$ 88,095	$ 541,705

The balances at June 30, 2013 and 2012 reflect the final allowed Class 2 claims less bankruptcy debt payments made through June 30, 2013. Per the Plan, cash available for payment of bankruptcy debt was first applied to the payment of Class 2 allowed claims prior to payment of Class 3 or Class 4 Unsecured Claims below. The balances remaining at June 30, 2013 reflect claim payments that have not been cashed or negotiated and are therefore still reflected on the books as a liability. In accordance with the Bankruptcy Plan, a reserve for these non-negotiated claim payments must be maintained for a period of two years after issuance. If the claims are not negotiated within that two year period, the claim is considered void and the property returns to Tri-City.

- Accounts Payable and Other Accrued Liabilities – Claims representing general accounts payable, accrued interest, and other accrued liabilities that were outstanding as of the bankruptcy petition date, adjusted to reflect the final allowed claim settlements and the payments to Class 2 claimants.

- Ford Auto Loans – Claims representing the unpaid balance on loans for vehicles that were returned subsequent to the petition date. All of the returned vehicles were subsequently sold by the creditor and the resulting claim reflects the unpaid balance on the loans less the sales proceeds received by the creditor. These amounts are further adjusted to reflect the payments to Class 2 claimants.

- Accrual Vacation and Sick Leave – Claims representing the unpaid balance of accrued vacation and sick leave for terminated employees only as adjusted to reflect the payments to Class 2 claimants.

- Outside Contracts Liability – Claims representing Tri-City's liability to contracted providers for unpaid services provided through February 13, 2004 as adjusted to reflect the final allowed claims as reconciled or settled. These amounts are also reduced to reflect the payments to Class 2 claimants.

Class 3 – Unsecured Claim of CAL DMH includes the following:

The balance of $6,601,182 at June 30, 2012 reflect the final allowed Class 3 claims which consisted of $6,648,932 in overpayment of Medi-Cal FFP for pre-petition services as determined by the Short-Doyle/Medi-Cal cost report final audit settlements for the fiscal years ended June 30, 1997 through 2004, offset by $47,750 due to Tri-City for pre-petition services performed under the AB 2034 Program. The decrease in the Class 3 liability to $6,335,918 at June 30, 2013 reflects Tri-City's first bankruptcy payment made to CAL DMH.

NOTE #7 –BANKRUPTCY, Continued

Class 4 – Unsecured Claim of LAC DMH includes the following:

The balance of $4,298,010 at June 30, 2012 reflect the final allowed Class 4 claims which consisted of $5,306,383 in overpayment of Medi-Cal EPSDT advances. This amount resulted from Medi-Cal audit adjustments for the fiscal years ending June 30, 2002 and 2003, as well as for services that had not yet been performed in fiscal 2004 by Tri-City due to the filing of bankruptcy. This amount was offset by amounts due to Tri-City of $1,008,373 from LAC DMH for services Tri-City provided under other LAC DMH programs. The decrease in the Class 4 liability to $4,125,298 at June 30, 2013 reflects Tri-City's first bankruptcy payment made to LAC DMH.

NOTE #8 – ESTIMATED THIRD PARTY PAYOR SETTLEMENTS AND COST REPORTS PAYABLE

Tri-City entered into agreements to provide services to patients covered under the Short-Doyle/Medi-Cal program and various LAC DMH programs. Prior to filing bankruptcy, and up through services provided in fiscal 2006-07, Tri-City submitted claims covered by the Short-Doyle/Medi-Cal program to the California Department of Mental Health. Commencing with services provided subsequent to June 30, 2007, Tri-City has submitted claims under the Medi-Cal program through LAC DMH. In addition, prior to filing bankruptcy, Tri-City provided services through other LAC DMH programs. These programs are paid based on a fixed or contracted rate or reimbursable costs, whichever is defined by the program. Reimbursements recorded under these programs are subject to audit and retroactive adjustment by the intermediaries through review of annual cost reports. Management's estimates for potential interim settlements and audit adjustments are recorded during the year the services are provided and reflected as "Reserves for Third Party Settlements." Adjustments for actual interim settlement letters issued and final audit adjustments are recorded in the year the amounts are finalized and reflected as "Cost Report Payable."

Estimated Third Party Payor Settlements

Tri-City's third party payor settlements are included in current liabilities and in bankruptcy liabilities. Third party payor settlements reflected in current liabilities is $1,882,243 at June 30, 2013 and $1,507,522 at June 30, 2012. These amounts include estimated Medi-Cal settlements payable for the fiscal year ended 2005 and reserves on Medi-Cal revenues received for services provided under contract with LAC DMH from fiscal 2008 through fiscal 2013. The reserves for fiscal years 2008 through 2013 are estimated based on LAC DMH's withholding percentages applied for each fiscal year, which can be subject to change. Since the cost reports for these years have not been settled or reviewed by the State and are subject to future audits, the reserves for disallowances on the Medi-Cal payments received are reflected as a current liability. Once LAC DMH finalizes its cost report settlements with the State, Tri-City expects that the County will pass on the settlement to Tri-City. Tri-City believes that the settlements for fiscal years 2008, 2009 and 2010 will occur in fiscal 2014. Reserves for third party payor settlements of $4,125,298 and $4,298,010 are included in "Bankruptcy Liabilities" at June 30, 2013 and 2012, respectively. This represents the amended claim settlement filed by LAC DMH, pending possible adjustments from future State audits of EPSDT claims, less Tri-City's bankruptcy claim payment made in fiscal 2013.

Cost Reports Payable

At June 30, 2013 and 2012, Tri-City reflected $6,335,918 and $6,601,182, respectively, for liabilities asserted by the California Department of Mental Health (CAL DMH) for cost report settlements based on the Short-Doyle/Medi-Cal issued interim settlement letters and final audit settlements for the fiscal years ended June 30, 1997, 1998, 1999, 2000, 2001, 2002, 2003, and 2004. The reduction in liability from June 30, 2012 balances reflect the first claim payment made by Tri-City in fiscal 2013. These liabilities are reflected in "Bankruptcy Liabilities".

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION

Tri-City Mental Health Center offers the following plans:

Tri-City 401A Money Purchase Plan

Prior to July 1, 2000, all employees were required to enroll in the Tri-City 401A Money Purchase Plan (the "MPP"), a defined contribution plan, on the date of hire in lieu of social security. Effective July 1, 2000, only part-time employees qualified for the MPP since all full-time employees were transferred into CalPERS. For all participating employees, Tri-City contributes an amount equal to 7.5 percent of the employee's annual gross salary reportable for Federal income tax purposes to the plan's administrator, Lincoln Financial Insurance Company. An employee is 100 percent vested in the retirement plan upon entry into the MPP. Tri-City's contribution to the MPP for the fiscal years ended June 30, 2013 and 2012 was $24,747 and $38,303, respectively.

California Public Employees' Retirement System (PERS)

Plan Description

Tri-City contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 P Street, Sacramento, California 95814.

Funding Policy

Tri-City employees enrolled in the PERS are required to contribute the "employee" contribution of seven percent of their annual covered salary. Tri-City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contractually required employer contribution rate for fiscal years 2013 and 2012 were 8.777 percent and 8.205 percent, respectively, for miscellaneous employees. The rates for 2013 and 2012 were determined by an actuarial valuation of the plan as of June 30, 2010 and 2009, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Benefit provisions and all other requirements are established by State statue. Full time employees or part-time employees that exceed 1,000 hours of work time in any fiscal period are eligible under this plan and must follow the contribution guidelines. The vesting period to receive pension retirement is five years. If an employee terminates before five years, they may withdraw their "employee" contributions to the plan.

Annual Pension Cost

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed
6/30/2013	$ 631,046	100%
6/30/2012	$ 518,587	100%
6/30/2011	$ 337,604	100%

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

Tri-City 457 Deferred Compensation Retirement Plan

On January 1, 1993, Tri-City offered a Section 457 Retirement Plan. Currently, this is a voluntary deferred compensation plan for all eligible employees from the date of hire who are at least 18 years of age. Tri-City and Plan participants contributed to the plan, subject to limits established by the Internal Revenue Code.

On November 1, 2003, Tri-City suspended its employer match contributions. Prior to November 1, 2003 Tri-City matched full-time employee deferrals at the rate of 70 percent ($.70 match for every $1.00 contributed) up to six percent of the employee's annual salary subject to the maximum amounts authorized by the Internal Revenue Code. Employer match contributions were placed in a 401 (A) plan.

Effective January 1, 1997, no benefits payable under the Section 457 Plan (the "457 Plan") to any member, beneficiary or contingent annuitant are assignable, and all such benefits are exempt from claims of creditors to the maximum extent permitted by law.

NOTE #10 – MORTGAGE NOTE PAYABLE

The following is a schedule of changes in Tri-City's mortgage note payable included in long-term debt for the fiscal years ended June 30, 2013 and 2012:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
June 30, 2013	$ 1,000,000	$ -	$ (21,455)	$ 978,548	$ 21,547
June 30, 2012	$ 863,074	$ 1,000,000	$ (863,074)	$ 1,000,000	$ 21,452

On June 25, 2012, the Tri-City's mortgage note was refinanced for $1,000,000 with monthly payments of $5,888 commencing on July 25, 2012 and ending on June 25, 2022, at which time a balloon payment of the unpaid sum of principal plus accrued interest is due. The loan bears interest at 5 percent. As a condition to receive the 5 percent interest, Tri-City must keep compensating cash balances at the lender's bank equal to the outstanding loan. If the cash balance is less than the required amount for a consecutive 90 day period the interest rate will increase by 1.5 percent until the compensating balances are restored. Tri-City was in compliance with this cash requirement at June 30, 2013 and 2012.

NOTE #10 – MORTGAGE NOTE PAYABLE, Continued

The annual requirement to amortize the outstanding mortgage note payable is as follows:

	Mortgage Note Payable	
June 30,	Principal	Interest
2014	$ 21,547	$ 49,114
2015	22,665	47,996
2016	22,440	46,983
2017	25,005	45,655
2018	26,303	44,358
2019 to 2022	860,588	160,083
Total Payments	$ 978,548	$ 394,189
Current Principal Portion	21,547	
Long-term Principal Portion	$ 957,001	

Interest expense on the mortgage note for the fiscal years ended June 30, 2013 and 2012 was $49,205 and $75,258, respectively.

NOTE #11 – UNEARNED MHSA REVENUES

MHSA funds received in the fiscal year that have been approved, allocated and available for use are recognized as non-operating income when received. Amounts received that have been approved for use in the next fiscal year are recorded as unearned revenue in current liabilities until the beginning of the period for which it was allocated and available for use. In addition, unrequested and unapproved MHSA funds received, as discussed above, are also included in unearned revenues as noncurrent liabilities.

Per the MHSA Statute, any funds allocated to a county/city which have not been spent for their authorized purpose within three years shall revert to the State to be deposited into the MHSA fund and available for other counties in future years. At the end of August 2013 the DHCS issued new guidance with regards to calculating reversion. Based on the new guidance Tri-City has determined that there is approximately $399 thousand to revert in PEI and Innovation funds previously received and has reflected this amount due to other governments.

NOTE #11 – UNEARNED MHSA REVENUES, Continued

The following table reflects the activity in the MHSA unearned revenue account for CSS, PEI, INN, WET and CFTN programs and unapproved plans during the fiscal years ended June 30, 2013 and 2012:

	Balance Beginning of Year	Funding Received	Amounts Recognized as Non-Operating Revenue	Reclassification of Previously Unapproved Programs	Balance End of Year
June 30, 2013					
CSS	$ 1,597,231	$ 7,759,340	$ (4,822,889)	$ --	$ 4,533,682
PEI	1,759,995	1,951,385	(1,996,390)	(323,080)	1,391,910
INN	711,631	510,986	(711,631)	219,255	730,241
WET	57,000	--	(336,335)	505,685	226,350
CFTN	--	--	(184,815)	926,172	741,357
Approved Programs	$ 4,125,857	$10,221,711	$ (8,052,060)	$ 1,328,032	$ 7,623,540
Unapproved Programs	$ 4,556,324	$ --	$ --	$ (1,727,032)	$ 2,829,292
Total Unearned Revenues	$ 8,682,181	$10,221,711	$ (8,085,060)	$ (399,000)	$ 10,452,832
June 30, 2012					
CSS	$ 2,263,635	$ 2,464,620	$ (3,131,024)	$ --	$ 1,597,231
PEI	1,723,543	633,480	(1,818,267)	1,221,239	1,759,995
INN	--	162,900	(222,545)	771,276	711,631
WET	--	--	--	57,000	57,000
Approved Programs	$ 3,987,178	$ 3,261,000	$ (5,171,836)	$ 2,049,515	$ 4,125,857
Unapproved Programs	$ 6,575,039	$ 30,800	$ --	$ (2,049,515)	$ 4,556,324
Total Unearned Revenues	$ 10,562,217	$ 3,291,800	$ (5,171,836)	$ --	$ 8,682,181

NOTE #12 – RESTRICTED NET POSITION

The following table summarizes the restricted net position as of June 30, 2013 and 2012.

	2013	2012
Funds restricted for approved MHSA programs:		
Community Services and Supports	$ 1,842,377	$ 2,082,139
Prevention and Early Intervention	686,165	387,557
Innovation	387,153	151,082
Workforce, Education and Training	162,380	--
Capital Facilities and Technology Needs	66,671	--
Prudent Reserves	2,371,200	2,271,200
Total Restricted Net Position	$ 5,515,946	$ 4,891,978

NOTE #13 – COMMITMENTS AND CONTINGENCIES

Bankruptcy Filing

Other than issues relating to Tri-City's bankruptcy filing under Chapter 9 that concluded in fiscal 2012, Tri-City was not involved in any litigation during the fiscal years ending June 30, 2013 and 2012.

In accordance with the confirmed Plan of Adjustment of Debts through the bankruptcy case, differences in "Bankruptcy Liabilities" which were subject to compromises as estimated by management, and the final allowed claims, were reconciled in fiscal 2008-09 through Tri-City's objection process. In accordance with this process, Tri-City had the right to settle or object to the claims through January 12, 2009. All claim objections entered by Tri-City were either: (1) not opposed, (2) accepted by the Court, or (3) settled with the claimant. The effects of these objections or settlements were recorded in the period when they become known. The final adjustments to the allowed claims were recorded in fiscal 2009 *(Note # 7)*. The initial payment of allowed claims commenced on April 9, 2009. Continued payments on allowed claims will depend on funds available as defined in the Bankruptcy Plan and the continued term of Tri-City's contract with LAC DMH.

State Medicaid/MHSA Programs

Tri-City participates in the Federal and State Medicaid (Medi-Cal) programs through its contract with LAC DMH. In addition, Tri-City participates in the State MHSA programs. These programs are subject to examination by the respective agencies overseeing the implementation of the programs and the amount of expenditures, if any, which may be disallowed by the responsible agency, cannot be determined at this time. Tri-City expects such amounts, if any, to be immaterial.

NOTE #13 – COMMITMENTS AND CONTINGENCIES, Continued

Realignment and MHSA Funding

Realignment and MHSA funding are based on taxes collected by the State. Due to the continuing economic pressures experienced by the State of California, the collection of State sales taxes and the 1% tax imposed on individuals with personal income over $1 million established through Proposition 63 could fluctuate. Based on the State's budget for fiscal 2014, Tri-City does not anticipate any significant reductions in its Realignment or MHSA funding.

City of Pomona Loan Commitment

In May 2013, Tri-City entered into a loan agreement with the City of Pomona (Pomona) to fund minor renovation of property acquired by Tri-City that provides affordable housing to clients that are mentally ill and are homeless or at the risk of becoming homeless. The amounts to be provided by Pomona will be accessed through Pomona's HOME Investment Partnerships Act Program established by the U.S. Department of Housing and Urban Development (HUD). The total loan commitment is approximately $147 thousand and is contingent based on Tri-City meeting all conditions and covenants under the loan agreement. The disbursement of funds by Pomona to Tri-City will occur as necessary to carry out the purposes of the loan. The loan is secured by a Trust Deed on the property. The loan term will be ten (10) years from the date of execution and will be interest free. Upon the sixth (6) year anniversary of the execution date, and each subsequent anniversary date thereafter until the maturity date, Pomona shall forgive twenty (20%) of the original principal. The forgiveness of debt for each period is contingent upon Tri-City's compliance with the requirements of the loan documents for the full preceding year. At June 30, 2013, there was no balance outstanding under the loan.

NOTE #14 – OPERATING LEASES

Administrative Offices

Tri-City has an agreement with the City of Claremont to rent a 4,000 square foot facility in Claremont to house its administrative staff. The lease commenced on November 1, 2008 at a monthly rent of $6,600. Terms of the lease provide for automatic two year renewals and allows for an annual adjustment to the monthly rent based on the CPI (Consumers Price Index) for the prior twelve months. On November 1, 2012 the monthly rent was increased to $6,867. The rent expense for this facility at June 30, 2013 and 2012 was $81,916 and $80,150, respectively.

MHSA Operations

Full Service Partnership Programs

In January 2010, Tri-City entered into a lease agreement with 1900 Royalty Drive, LLC to rent two office spaces located in Pomona with a total of 5,651 square feet. The office space is being used for the staff and operations of Tri-City's Full Service Partnership programs for Children and TAY approved under the MHSA CSS plan and for Tri-City's Children and Family Outpatient clinic.

The lease term is from May 1, 2010 through May 31, 2015 with an initial monthly rent of $12,715, adjusted in fiscal 2013 to $13,950. Rent expense for fiscal 2013 and 2012 was $163,120 and $158,154, respectively.

NOTE #14 – OPERATING LEASES, Continued

Wellness Center Program

In April 2011, Tri-City entered into a $2,000 month to month lease with 1890 N. Garey Ave., LLC for temporary space to house the Wellness Center staff and provide an area for Wellness Center programs until the Wellness Center under construction was completed. The lease was terminated on November 30, 2011 when the Wellness Center Facility was opened. Rent expense for fiscal 2012 was $10,000.

Community Capacity Building Program

In October 2010, Tri-City entered into a lease agreement with 1900 Royalty Drive, LLC to rent office space located in Pomona with a total of 1,123 square feet. The office space is being used for the staff and operations of the Community Capacity Building program approved under the MHSA PEI plan. The lease term is from October 1, 2010 through September 30, 2015 at an initial monthly rent of $2,415 adjusted in fiscal 2013 to $2,566. Rent expense for fiscal 2013 and 2012 was $30,094 and $29,646, respectively.

Other CSS and PEI Programs

On June 1, 2013, Tri-City entered into a lease agreement with 1900 Royalty Drive, LLC to rent office space located in Pomona with a total of 1,797 square feet. The office space is being used for the staff and operations of several CSS and PEI programs. The lease term is from June 1, 2013 through May 30, 2018 at an initial monthly rent of $4,044. Rent expense for fiscal 2013 was $4,044.

Housing Program

As part of programs to provide housing for those in need, Tri-City rents properties for the purpose of providing temporary living accommodations to various tenants. During fiscal 2013 and 2012 Tri-City rented a total of five properties under one master lease that expired on May 31, 2011. From June 1, 2011 to May 31, 2013 the lease was on a month to month basis. On June 1, 2013, Tri-City entered into a one year master lease with a monthly rental payment is $5,315. In order to develop self reliance and independence, Tri-City charges a nominal fee as rent from the tenants based on income criteria. Rent expense paid by Tri-City was $60,865 and $59,200 at June 30, 2013 and 2012, respectively. This expense is reflected as an operating expense in “Client lodging, transportation, and supply expense.”

Equipment

Tri-City has entered into various leases for the rental of office equipment. The monthly payments range from $458 to $1,523 and the rental payments are classified as operating expenses in “facility and equipment operating costs.”

NOTE #14 – OPERATING LEASES, Continued

The remaining minimum required payments are as follows:

Years Ended June 30	Lease Payments
2014	$ 51,516
2015	50,389
2016	37,992
2017	28,840
2018	11,581
	$ 180,318

NOTE #15 – RISK MANAGEMENT

Tri-City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which they carry commercial insurance. Tri-City is insured for risks of loss through insurance companies. There have been no significant changes in coverage amounts or any significant losses in the past three years. The following table identifies the major insurance coverage's purchased:

Insurance Risk	Coverage per Incident	Coverage in Aggregate	Deductible
Professional Liability/Sexual Abuse	$ 2,000,000	$ 3,000,000	$ 7,500
General Liability/Employee Benefit Liability	$ 2,000,000	$ 3,000,000	$ 0 / $ 2,500
Workers Compensation	Unlimited	Unlimited	Zero
Directors and Officers/EPL	$ 2,000,000	$ 2,000,000	$25,000/$50,000
Automobile	$ 1,000,000	$ 1,000,000	$ 250 to $ 500
Property-Building	$ 5,751,877	$ 5,751,877	$ 1,000
Property-Computer	$ 1,659,208	$ 1,659,208	$ 1,000
Property-Business Personal Property	$ 530,565	$ 530,565	$ 1,000
Crime	$ 1,000,000	$ 1,000,000	$ 5,000

NOTE #16 – CONTRACT WITH LOS ANGELES DEPARTMENT OF MENTAL HEALTH

In June 2013, the Los Angeles County Board of Supervisors approved extension of Tri-City's 2010-2013 three year contract with LAC DMH to provide Medi-Cal services to the residents of the tri-cities of Pomona, La Verne and Claremont through fiscal 2014. The annual maximum contract amount is $5.0 million and may be amended. This contract allows the County to pass through Medi-Cal Federal and State reimbursement for Medi-Cal eligible services provided by Tri-City under the Agency's outpatient clinics and Full Service Partnership programs.

NOTE #17 – RELATED PARTY TRANSACTIONS

The Cities of Pomona, Claremont and La Verne, as member agencies, contributed funds in the amount of $70,236 in 2013 and $70,073 in 2012 to support the operations of Tri-City as required by Realignment legislation. In addition, Tri-City has leased a 4,000 square foot facility from the City of Claremont to house its administrative staff *(Note #14)* and entered into a Loan Agreement with the City of Pomona to receive funds for the minor renovations of a housing property that provides affordable housing to Tri-City mentally ill clients *(Note #13)*.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

To the Governing Board of
Tri-City Mental Health Center
Pomona, California

We have audited, 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, the financial statements of Tri-City Mental Health Center (Tri-City), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise Tri-City's basic financial statements, and have issued our report thereon dated October 16, 2013. Our report included an emphasis of matter regarding Tri-City's adoption of Statement of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tri-City'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-City's internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-City'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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-City's financial statements are free from 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. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 16, 2013