TRI-CITY MENTAL HEALTH CENTER

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Tri-City Mental Health Center
Claremont, 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, 2014, and 2013 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits 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, 2014 and 2013, 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 Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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 9, 2014, 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 9, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

The following discussion of the Tri-City Mental Health Center ("Tri-City"), a Municipal Joint Powers Authority ("JPA") financial statements present a narrative overview and analysis of Tri-City's financial activities for the fiscal years ended June 30, 2014, and 2013. 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 programs 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 operations established through the Mental Health Services Act (MHSA) The MHSA Community Services and Support (CSS) programs approved in June 2009 are fully operational. The MHSA Prevention and Early Intervention (PEI) programs approved in March 2010 and in fiscal 2011-12 are now in full swing. The Innovations programs approved in fiscal 2011-12 will be substantially finished in fiscal 2014-15 with two new Innovation programs to begin in fiscal 2014-15. In November 2012, the Workforce, Education and Training (WET) Plan was approved and in May 2013 the Technology Projects under Capital Facilities/Technological Needs (CFTN) Plan was approved. Implementation of the WET plan began in the third quarter of fiscal 2012-13 and initial implementation of the Technology Projects began in June 2013. These two plans are now in full implementation stages.

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 and other services for services provided through FSP and other MHSA programs.

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, and deferred inflow and outflow of resources, 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, 2014, 2013 and 2012:

Statements of Net Position

	2014	2013	2012
Assets			
Current Assets	$ 24,005,286	$ 24,804,706	$ 20,585,891
Capital Assets, Net	5,771,538	5,961,110	5,659,967
Other Assets	157,423	93,604	82,512
Total Assets	29,934,247	30,859,420	26,328,370
Liabilities			
Current Liabilities	3,961,246	3,865,568	6,965,750
Noncurrent Liabilities (including Unearned MHSA Revenues)	3,349,358	3,786,293	5,534,872
Bankruptcy Liabilities	8,518,967	10,549,311	11,440,897
Total Liabilities	15,829,571	18,201,172	23,941,519
Deferred Inflow of Resources			
MHSA Revenues Restricted for Future Period	6,185,724	7,623,540	
Total Deferred Inflow of Resources	6,185,724	7,623,540	-
Net Position			
Net Investment in Capital Assets	4,814,539	4,982,562	4,659,967
Restricted for MHSA Programs	7,148,640	5,515,946	4,891,978
Unrestricted	(4,044,227)	(5,463,800)	(7,165,094)
Total Net Position	$ 7,918,952	$ 5,034,708	$ 2,386,851

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

  - <u>*Comparison of June 30, 2014 to June 30, 2013*</u>. At June 30, 2014, Tri-City reflected a decrease in total assets of approximately $900 thousand. Total cash and investments at June 30, 2014 was approximately $18.7 million reflecting a decrease of approximately $1.2 million from the balance at June 30, 2013 of $19.9 million. Offsetting this decrease to total assets was an increase in accounts receivable of approximately $300 thousand. The decrease in cash was mainly due to the payment of approximately $2.0 million on its Unsecured Bankruptcy Claims, offset by MHSA and Realignment funding that exceeded cash used in operating and capital activities. Net capital assets decreased by approximately $190 thousand representing purchases of approximately $420 thousand less depreciation of approximately $610 thousand.

  - <u>*Comparison of June 30, 2013 to June 30, 2012*</u>. 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 capital assets of approximately $301 thousand also contributed to the increase in total assets. The increase in net capital assets is due in part to the acquisition of property located in Pomona as approved under Tri-City's MHSA Permanent Supportive Housing plan for approximately $540 thousand as well as equipment purchases of approximately $270 thousand including computer equipment required under the new CFTN plan. These increases in capital assets were offset by approximately $560 thousand in depreciation.

- **Total Liabilities** are comprised of current and noncurrent liabilities, including long-term notes payable, bankruptcy liabilities and unearned MHSA revenues.

    - *Comparison of June 30, 2014 to June 30, 2013*. Liabilities decreased by approximately $2.4 million from $18.2 million at June 30, 2013 to $15.8 million at June 30, 2014. This change is mainly due to the bankruptcy distributions of approximately $2 million in fiscal 2014 as well as a decrease of approximately $500 thousand of unearned MHSA revenues included in noncurrent liabilities. At June 30, 2014, noncurrent unearned MHSA revenues were approximately $2.3 million as compared to $2.8 million at June 30, 2013. The unearned MHSA revenue recorded in noncurrent liabilities at June 30, 2014 and 2013 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 stakeholder meetings and input from stakeholder work groups, review and recommendation by the Mental Health Commission and final Governing Board approval. During fiscal 2014 and 2013, as a result of new MHSA programs and updates, approximately $500 thousand and $1.3 million of the noncurrent unearned MHSA revenue was identified as approved and available to be spent in fiscal 2015 and 2014, respectively. In addition to noncurrent Unearned MHSA revenues and bankruptcy debt, noncurrent liabilities include the mortgage note payable and the City of Pomona HUD Loan. The mortgage note payable decreased by approximately $22 thousand due the debt service payments made during the fiscal year. The City of Pomona HUD loan in the amount of $90 thousand was new in fiscal 2014 which relates to improvements made to a home as part of an affordable housing program for clients. Additional offsets to the decrease in bankruptcy liabilities and unearned MHSA revenue was an increase in other current liabilities reflecting the growth in Tri-City's MHSA services and staffing.

  - *Comparison of June 30, 2013 to June 30, 2012*. Liabilities decreased by approximately $5.7 million from $23.9 million at June 30, 2012 to $18.2 million at June 30, 2013. This change was mainly due to the reclassification of the current unearned MHSA revenues of $7.6 million reported at June 30, 2013 to Deferred Inflow of Resources as MHSA Revenues Restricted for Future Period, as required by GASB Statement No. 65 and further explained below. In 2012, the current unearned MHSA revenues of approximately $4.1 were included in current liabilities. In addition there was a decrease of approximately $1.7 million in noncurrent unearned MHSA revenues. At June 30, 2013, noncurrent unearned MHSA revenues were approximately $2.8 million as compared to noncurrent unearned MHSA revenues of $4.6 million at June 30, 2012. 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 $1.3 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 decreases and reclassification relating to unearned MHSA revenue (current and noncurrent) described above, bankruptcy debt decreased by approximately $892 thousand in fiscal 2013 as a result of bankruptcy distributions. Offsetting these decreases was an increase in other current liabilities reflecting the growth in Tri-City's MHSA services and staffing. Noncurrent liabilities also include the mortgage note payable which decreased by approximately $22 thousand due the debt service payments made during the fiscal year.

- **Deferred Inflow of Resources** is comprised of MHSA Revenues Restricted for Future Period.

  - *Comparison of June 30, 2014 to June 30, 2013*. As of July 1, 2013 Tri-City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which was required to be retroactively applied to the prior year (Fiscal 2013). Accordingly, Tri-City has reclassified the MHSA Revenue Restricted for Future Period (previously titled unearned MHSA revenues included in current liabilities) as Deferred Inflow of Resources on the Statements of Net Position as of June 30, 2014 and 2013 in the amounts of approximately $6.2 million and $7.6 million, respectively. This separate financial statement caption represents an increase to net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The MHSA revenue restricted for future period amounts recorded within this new caption reflect the receipt of MHSA funds in fiscal 2014 and prior fiscal years not used during that fiscal year, but allocated to be used at the beginning of the next fiscal year per an approved MHSA plan.

  - *Comparison of June 30, 2013 to June 30, 2012.* As noted above, Tri-City implemented a new GASB which required the reclassification of MHSA revenues restricted for future periodto a new caption titled Deferred Inflow of Resources for fiscal years 2014 and 2013 only. This separate financial statement caption represents an increase to net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Tri-City reports the MHSA Revenues Restricted for Future Period as an inflow of resources (revenue) in the period that the amounts become available. The unearned MHSA revenue amounts recorded in current liabilities during 2012 was approximately $4.1 million as compared to the amount reported in Deferred Inflow of Resources for Fiscal 2013 of approximately $7.6 million and reflect the receipt of MHSA funds in those fiscal years which were not used during that fiscal year, but allocated to be used at the beginning of the next fiscal year per an approved MHSA plan.

- **Net Position** is the difference between total assets, liabilities, and deferred inflow of resources.

  - *At June 30, 2014*. Tri-City's net position at June 30, 2014 was approximately $7.9 million, which is the result of total assets of $29.9 million less total liabilities and deferred inflow of resources of $22 million. Net Position is also comprised of Net Investment in Capital Assets of approximately $4.8 million (capital assets less the mortgage liability), Net Position Restricted for MHSA Programs of approximately $7.1 million, and negative Unrestricted Net Position of approximately $4.0 million. The increase of $1.6 million in Net Position Restricted for MHSA Programs is due to the increase in MHSA funding recognized into revenue and unspent as of the end of the fiscal year. As a result of Tri-City filing for bankruptcy in fiscal 2004, the total liabilities at June 30, 2014 include approximately $8.5 million in bankruptcy liabilities that remain outstanding.

  - *At June 30, 2013*. Tri-City's net position at June 30, 2013 was approximately $5.0 million, which is the result of total assets of $30.8 million less total liabilities and deferred inflow of resources of $25.8 million. Net Position is also comprised of Net Investment in Capital Assets of approximately $5.0 million (capital assets less the mortgage liability), Net Position Restricted for MHSA Programs of approximately $5.5 million, and negative Unrestricted Net Position of approximately $5.5 million. The increase of $600 thousand in Net Position Restricted for MHSA Programs is due to the increase in MHSA funding recognized into revenue and unspent as of the end of the fiscal year. 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.

The following table shows the change in net position during the fiscal years ended June 30, 2014, 2013, and 2012:

Revenue, Expenses and Changes in Net Position

	2014	2013	2012
Operating Revenues:			
Medi-Cal - Federal Financial Portion	$ 3,636,502	$ 2,999,640	$ 3,117,733
Medi-Cal - State EPSDT	1,608,773	1,664,800	1,208,677
Medicare	12,223	12,186	11,580
Contracts	67,215	20,389	21,000
Rental Income	53,787	58,775	35,264
Other Operating Income	10,569	10,065	5,256
Total Operating Revenue	5,389,069	4,765,855	4,399,510
Operating Expenses	15,439,851	14,196,311	13,112,900
Operating Loss	(10,050,782)	(9,430,456)	(8,713,390)
Non Operating Revenues (Expenses), Net	12,876,744	11,777,101	8,764,962
Income before Special Items	2,825,962	2,346,645	51,572
Special Items:			
Settlement of Bankruptcy Debt	58,282	301,864	-
Reorganization Costs- Professional Fees		(652)	(19,862)
Total Special Items	58,282	301,212	(19,862)
Change in Net Position	2,884,244	2,647,857	31,710
Net Position, Beginning of Year	5,034,708	2,386,851	2,355,141
Net Position, End of Year	$ 7,918,952	$ 5,034,708	$ 2,386,851

Fiscal Year 2014 to 2013 Comparisons

Operating Revenues — Operating revenues increased approximately $623 thousand. This increase is primarily due to higher Medi-Cal revenues, net of provision for doubtful accounts, of approximately $580 thousand, a 12.4% increase. Approximately $310 thousand of this increase is from Medi-Cal revenues produced by increased Full Service Partnership services provided in Fiscal 2014 under the MHSA CSS plan and approximately $270 thousand in Medi-Cal revenues reflected during 2014 for the outpatient clinic operations. The Medi-Cal services provided by the outpatient clinic in Fiscal 2014 actually increased by $640 thousand, however, the change between years was not significant since Tri-City recognized approximately $370 thousand in Medi-Cal revenues in Fiscal 2013 that related to prior year State audit settlements which was not previously determinable. In addition to Medi-Cal revenues, Tri-City recorded higher revenue from grants and contracts of approximately $47 thousand offset by lower rents Tri-City receives from the lease of supportive housing to its clients.

- **Operating Expenses** — Operating expenses increased by approximately $1.2 million (8.8%) in fiscal 2014 as compared to fiscal 2013. Approximately $957 thousand of this increase was due to MHSA programs and approximately $286 thousand of the increase was for outpatient clinic services. The main increase for both the outpatient clinic and MHSA operations was due to an increase in salaries expense of $1.2 million. During the year, previously vacant clinical positions were filled in the outpatient clinic and the Full Service Partnership programs. In addition, new resources were hired for the quality assurance and outcome reporting as well as a new position for the Therapeutic Community Gardening and Housing Stability programs under the PEI plan. Other increases in operating expenses were in facility and equipment operating costs relating to the implementation of the CFTN programs. A portion of these increases were offset due to lower ambulance costs and flex funds in the FSP program.

- **Operating Loss** — 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 $10 million in fiscal 2014 compared to $9.4 million in 2013. The increase in operating losses resulted from higher operating costs as discussed above of approximately $1.2 million which were reduced by higher operating revenues of approximately $623 thousand.

- **Non-Operating Revenues (Expenses), Net** — Non-operating revenues (expenses) were approximately $12.9 million in fiscal 2014 and $11.8 million in fiscal 2013, an increase of approximately $1 million. This increase is mainly due to an increase of MHSA funding recognized as non-operating revenues in fiscal 2014. Approximately $830 thousand of the increase was for CSS programs, including projected increases in Adult and TAY Full Service Partnership services as well providing more services through the Wellness Center, Navigators, and Crisis Support. Approximately $560 thousand of the increase is the result of the adoption of the new Capital Facilities and Technology Needs (CFTN) plans in fiscal 2013 which only began implementation in June 2013, with most of the expenditures projected to incur in fiscal 2014. These increases were offset by the decrease in PEI program revenue of $215 thousand as a result of the conclusion of the three year Student Wellbeing program and lower projected Workforce Education and Training (WET) plan costs of approximately $110 thousand for Fiscal 2014.

- **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 prior years, Tri-City made distributions 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, 2014. In accordance with the Bankruptcy Plan, unclaimed distributions over two years old become the property of Tri-City and therefore, in fiscal 2014, Tri-City recognized $58 thousand as Bankruptcy Debt Settlement income.

- **Changes in Net Position —** Tri-City's net position increased by $2.9 million during the fiscal year ended June 30, 2014. The combined 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 $1.2 million. Medi-Cal revenues and MHSA funding with respect to MHSA programs exceeded MHSA program expenses by approximately $1.4 million, as a result of Medi-Cal revenues generated from the MHSA FSP Program which offset the expenses during the year. The remaining increases in Net Position relate to other operating revenues of approximately $64 thousand and other non-operating revenues, net of approximately $85 thousand.

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.

- **Operating Loss** — 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 (Expenses), 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.

- **Changes in 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.

Economic Factors

In May 2013, California's State Governor issued the May Revise Budget. This May revise addressed Medi-Cal expansion and related funding issues under Health Care Reform. One issue of concern that the counties had with the May revise, was the proposed redirection of 1991 Health Realignment Funds from counties back to the State with the amount of redirection to be based on savings on services previously provided to non-funded clients which would qualify for Medi-Cal Expansion under the Affordable Health Care Act. Tri-City has determined that this redirection of funds will be from the counties' 1991 Health Realignment funds and will not be coming out of the 1991 Realignment Mental Health sub account. As Tri-City receives its 1991 Realignment from the Mental Health sub-account, there was no reduction to Tri-City's cash flow from Realignment in fiscal 2013-14. As previously noted, Realignment is the funding Tri-City uses to provide mental health outpatient services. Other areas addressed in the May 2013 revise affecting mental health related to services that Tri-City does not currently provide, such as alcohol and substance abuse and State prison mental health.

On January 1, 2014, the Affordable Care Act became effective, including the expansion of Medicaid (Medi-Cal) services to single adults between the ages of 18 and 65. Individuals now qualifying for expanded Medi-Cal in the Tri-City area are either current Tri-City clients receiving mental health services from Tri-City as unfunded clients or are now seeking services from Tri-City as a new client. Tri-City continues to be a major partner with its community and LA County Department of Mental Health (LA DMH) to ensure that all Tri-City residents that become eligible under expanded Medi-Cal (MCE) will be served. The cost of services provided by Tri-City for residents qualifying under MCE is to be reimbursed at 100% for the first three years through Federal Financial Participation (FFP). In order to ensure proper reimbursement, Tri-City's new contract with LA DMH for the three fiscal years commencing July 1, 2014 includes language regarding MCE and Tri-City's authority to bill for such services through LA DMH. In fiscal 2013-14 Tri-City experienced less than a 1% increase in its 1991 Realignment funding. Based on discussions with the California Mental Health Directors Association (CMHDA), the State's 2014-15 budget and CMHDA's current projections for fiscal 2014-15, Tri-City expects 1991 Realignment to remain level with 2013-14 funding.

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, as well as new innovative programs to treat mental illness. In addition MHSA provides funding for 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. State MHSA funds can fluctuate based on new events and economic pressures not currently known. In Fiscal 2013-14 Tri-City received approximately 95% of the 2013-14 MHSA funds originally projected at the beginning of the year. Based on discussions with the California Mental Health Directors Association (CMHDA), the State's 2014-15 budget and CMHDA's current projections for fiscal 2014-15, Tri-City expects an increase in MHSA funding for fiscal 2014-15 of approximately 30%.

Liquidity and Bankruptcy

At June 30, 2014, Tri-City had approximately $18.7 million in cash. Of this amount, approximately $13.3 million is cash that is immediately available but restricted only for the implementation and provision of services under approved MHSA programs, $3.4 million is unrestricted cash for Tri-City's outpatient clinic operations and approximately $2 million (which is also reflected as unearned revenues) 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 Los Angeles County Department of Mental Health (LAC DMH) claims representing 4% of each Class' allowed claims. During Fiscal 2014 Tri-City made additional payments of approximately $2 million to Class 3 and Class 4 Unsecured creditors representing 19% 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
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and investments *(Note #4)*	$ 3,433,058	$ 3,981,823
Restricted cash and investments for MHSA programs *(Note #4)*	15,276,667	15,892,076
Accounts receivable, net of allowance for uncollectible accounts of $666,078 and $636,283 at June 30, 2014 and 2013, respectively *(Note #5)*	5,295,561	4,930,807
Total Current Assets	24,005,286	24,804,706
Noncurrent Assets:		
Land	1,234,960	1,234,960
Capital assets being depreciated, net of accumulated depreciation *(Note #6)*	4,536,578	4,726,150
Deposits *(Note #2f)*	157,423	93,604
Total Noncurrent Assets	5,928,961	6,054,714
Total Assets	29,934,247	30,859,420
LIABILITIES		
Current Liabilities:		
Accounts payable	398,691	392,736
Accrued payroll liabilities	219,624	151,910
Accrued vacation and sick leave	799,031	709,261
Other accrued liability	-	1,557
Due to other governments	307,314	706,314
Estimated third party payor settlements *(Note #8)*	2,213,921	1,882,243
Current portion of mortgage note payable *(Note #10)*	22,665	21,547
Total Current Liabilities	3,961,246	3,865,568
Noncurrent Liabilities:		
Mortgage note payable *(Note #10)*	934,334	957,001
City of Pomona HUD Loan (*Note #13*)	90,016	-
Bankruptcy liabilities *(Note #7)*	8,518,967	10,549,311
Unearned MHSA revenues *(Note #11)*	2,325,008	2,829,292
Total Noncurrent Liabilities	11,868,325	14,335,604
Total Liabilities	15,829,571	18,201,172
DEFERRED INFLOW OF RESOURCES:		
MHSA revenues restricted for future period *(Note #11)*	6,185,724	7,623,540
Total Deferred Inflow of Resources	6,185,724	7,623,540
NET POSITION		
Net investment in capital assets	4,814,539	4,982,562
Restricted for MHSA programs *(Note #12)*	7,148,640	5,515,946
Unrestricted	(4,044,227)	(5,463,800)
Total Net Position	$ 7,918,952	$ 5,034,708

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 FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Operating Revenues:		
Medi-Cal, net of provision for disallowances	$ 5,245,275	$ 4,664,440
Medicare	12,223	12,186
Contracts	67,215	20,389
Rental income	53,787	58,775
Patient fees and insurance	2,886	3,653
Other income	7,683	6,412
Total Operating Revenues	$ 5,389,069	$ 4,765,855
Operating Expenses:		
Salaries, wages and benefits	11,224,524	10,052,522
Facility and equipment operating costs	1,250,953	1,094,283
Client lodging, transportation, and supply expense	414,769	505,677
Depreciation	613,367	558,573
Other operating expense	1,936,238	1,985,256
Total Operating Expenses	15,439,851	14,196,311
Operating Loss	(10,050,782)	(9,430,456)
Non-Operating Revenues (Expenses):		
Realignment	3,690,390	3,656,160
MHSA funding	9,135,476	8,052,060
Contributions from member cities	70,236	70,236
Interest income	40,050	47,790
Interest expense	(59,408)	(49,205)
Other non-operating income	-	60
Total Non-Operating Revenues (Expenses)	12,876,744	11,777,101
Income before Special Items	2,825,962	2,346,645
Special Item:		
Settlement of Bankruptcy Debt *(Note #2c)*	58,282	301,864
Reorganization Costs- Professional Fees	-	(652)
Total Special Items	58,282	301,212
Change in Net Position	2,884,244	2,647,857
Net Position at Beginning of Year	5,034,708	2,386,851
Net Position at End of Year	$ 7,918,952	$ 5,034,708

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

TRI-CITY MENTAL HEALTH CENTER

STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 5,355,993	$ 5,116,569
Cash payments to suppliers and contractors	(3,661,381)	(3,424,751)
Payments to employees for salaries and benefits	(11,067,040)	(9,972,218)
Payments on Bankruptcy Unsecured Claims *(Note #7)*	(2,030,344)	(891,586)
Special items *(Note #2c)*	58,282	301,212
Net Cash Used by Operating Activities	(11,344,490)	(8,870,774)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funding from Mental Health Services Act	6,794,376	10,221,711
Realignment	3,690,390	3,635,261
Contributions from member cities	70,236	73,677
Net Cash Provided by Noncapital Financing Activities	10,555,002	13,930,649
CASH FLOWS FROM CAPITAL AND RELATED FINANCIN ACTIVITIES		
Purchase of capital assets	(423,795)	(859,716)
Principal paid on capital debt	(21,549)	(21,455)
Interest paid on capital debt	(59,408)	(49,205)
Proceeds from City of Pomona HUD Loan *(Note #13)*	90,016	-
Net Cash Used by Capital and Related Financing Activities	(414,736)	(930,376)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	40,050	50,392
Sale of investment	-	60
Net Cash Provided by Investing Activities	40,050	50,452
Net Increase (Decrease) in Cash and Cash Equivalents	(1,164,174)	4,179,951
Cash and Cash Equivalents at Beginning of Year	19,873,899	15,693,948
Cash and Cash Equivalents at End of Year	$ 18,709,725	$ 19,873,899

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

TRI-CITY MENTAL HEALTH CENTER

STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Reconciliation of Operating Loss from Operations to Net Cash Provided by Operating Activities:		
Operating Loss	$ (10,050,782)	$ (9,430,456)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	613,367	558,573
Special items, net *(Note #2c)*	58,282	301,212
Changes in assets and liabilities:		
(Increase) in accounts receivable, net of allowance	(364,754)	(24,004)
(Increase) in deposits	(63,819)	(11,093)
Increase in accounts payable	5,955	169,998
Increase (decrease) in accrued payroll liabilities	67,714	(4,394)
Increase in accrued leave	89,770	84,698
Increase (decrease) in other accrued liabilities	(1,557)	1,557
Increase in estimate for third party payor settlements	331,678	374,721
(Decrease) in Bankruptcy liabilities	(2,030,344)	(891,586)
Net Cash Used by Operating Activities	$ (11,344,490)	$ (8,870,774)

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 Statements of Net Position, Statements of Revenues, Expenses, and Change in Net Position, and 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) including deferred inflow of resources and deferred outflow of resources 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".

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. 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 2014 and 2013 Tri-City recognized $58,282 and $6,524, respectively, as Bankruptcy Debt Settlement income.

D. 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, 2014 and 2013, Tri-City's cash and cash equivalents included pooled cash balances and investments in the Local Agency Investment Fund (LAIF).

E. 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

F. Deposits

Deposits include security, rental and utility deposits that have been paid to third parties. At June 30, 2014 and 2013, Tri-City had deposits outstanding in the amounts of $157,423 and $93,604, respectively.

G. Compensated Absences and Sick Leave

Employees can only accrue up to a maximum of 240 hours of vacation time and may be paid up to 240 hours of accrued sick time upon separation. Therefore, accumulated unpaid vacation and sick time up to 240 hours per employee, is recognized as a liability of Tri-City. Both vacation and sick time may only be cashed out upon separation.

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, 2014 and June 30, 2013, payments made to the terminated employees represent 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.

H. 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.

I. 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 and government mandated 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.

J. 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.

K. 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.

L. 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 2013, "1991" Realignment was derived from State Vehicle License Fees and Sales Tax collected at the State level. In 2013, 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.

M. Mental Health Services Act (MHSA) Revenue

Tri-City receives MHSA funds to provide mental health programs 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 eligibility requirements are met, including time restriction requirements. The MHSA funds received for programs not yet meeting these eligibility requirements, are recorded as Unearned Revenues on the Statements of Net Position as Noncurrent Liabilities (amounts unapproved by a plan) and as MHSA Revenues Restricted for Future Period under Deferred Inflow of Resources (amounts approved for the beginning of the next fiscal year).

N. 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 # 17).*

O. 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, 2014 and 2013, 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).*

P. Net Position

The Statements of Net Position report $7,148,640 and $5,515,946 of restricted net position, at June 30, 2014 and June 30, 2013, respectively, which are equal to MHSA funds that are restricted for use in MHSA programs. Net Investment in Capital Assets of $4,814,539 and $4,982,562 are equal to Tri-City’s capital assets at June 30, 2014 and June 30, 2013 (Note #6), respectively, net of the related mortgage debt (Note #10). The remaining Unrestricted Net Position is available for the general operations of Tri-City.

Q. Deferred Outflows/Inflows of Resources (Implementation of GASB Statement No. 65)

In addition to assets reported on the Statements of Net Position, Tri-City will sometimes report a separate section for deferred outflows of resources. This separate financial statement caption represents a consumption of net position that applies to a future period and so, will not be recognized as an outflow of resources (expenditure) until then. Tri-City does not have any items that qualify for reporting in this category as of June 30, 2014 and June 30, 2013.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

In addition to liabilities reported on the Statements of Net Position, Tri-City will sometimes report a separate section for deferred inflows of resources. This separate financial statement caption represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Tri-City has one item that qualifies for reporting in this category. Tri-City reports MHSA Revenues Restricted for Future Periodas an inflow of resources in the period that the amounts become available. Also refer to Note #11, for additional details relating to MHSA Revenues Restricted for Future Period and Unearned MHSA Revenues.

R. Reclassifications

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

NOTE #3 – NEW ACCOUNTING PRONOUNCEMENTS

Effective In Current Fiscal Year

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. This statement was implemented by Tri-City as of July 1, 2012.

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 determined that there is no effect on the Financial Statements.

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 determined that there is no effect on the Financial Statements.

NOTE #3 – NEW PRONOUNCEMENTS, Continued

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 determined that there is no effect on the Financial Statements.

Effective in Future Years

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.

GASB Statement No. 69 – In January 2014, 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, 2014. Tri-City has not determined the effect of this Statement.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provision of Statement No. 68, Accounting and Financial Reporting for Pensions. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. Tri-City has not determined the effect of this statement.

NOTE #4 – CASH AND INVESTMENTS

As of June 30, 2014 and 2013, cash and investments in the Statements of Net Position consisted of the following:

	2014	2013
Cash on hand	$ 2,500	$ 2,500
Deposits with financial institutions	2,610,478	2,815,606
Deposit with Local Agency Investment Fund	16,096,747	17,055,793
Total Cash and Investments	$ 18,709,725	$ 19,873,899

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, 2014 and 2013, $16,096,747 and $17,055,793, respectively, of cash and investments were placed in Tri-City's LAIF account. LAIF 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, 2014 and 2013, Tri-City's total 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 $2,739,810 and $2,897,239, 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 $16,096,747 and $17,055,793 at June 30, 2014 and 2013, respectively. The total balance in the LAIF is available for withdrawal. The California Local Agency Investment Fund is not insured or collateralized.

Restricted Cash and Investments

Cash and investments reflected on the Statements of Net Position as restricted was $15,276,667 and $15,892,076 at June 30, 2014 and 2013, 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. Therefore amounts reflected on the Statements of Net Position which include MHSA current operating liabilities will be funded through the MHSA restricted cash balance and collection of MHSA Medi-Cal receivables.

NOTE #5 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 and 2013, consisted of the following:

	2014	2013
Accounts Receivable:		
Medi-Cal	$ 5,185,045	$ 4,803,117
Medicare	701	1,591
Realignment	609,225	609,225
Grants and Contracts	157,866	142,309
Interest Receivable	8,802	10,848
Total Accounts Receivable	$ 5,961,639	$ 5,567,090
Less: Allowance for Doubtful Accounts	(666,078)	(636,283)
Accounts Receivable, Net	$ 5,295,561	$ 4,930,807

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, 2014 and 2013, Medi-Cal accounts receivable included approximately $2.7 million and $2.2 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 2014. 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 $456 thousand and $377 thousand for the years ended June 30, 2014 and 2013, respectively.

NOTE #6 – CAPITAL ASSETS

The following schedule summarizes capital asset activity for the years ended June 30, 2014 and 2013:

	Beginning Balance	Additions	Deletions	Ending Balance
June 30, 2014:				
Capital Assets not being depreciated:				
Land	$ 1,234,960	$ -	$ -	$ 1,234,960
Total Capital Assets not being depreciated	1,234,960	-	-	1,234,960
Capital Assets, being depreciated:				
Buildings and improvements	6,037,253	163,998	-	6,201,251
Leasehold improvements	67,805	25,342	-	93,147
Furniture and equipment	1,322,673	234,454	(44,044)	1,513,083
Total Capital Assets being depreciated	7,427,731	423,794	(44,044)	7,807,481
Less accumulated depreciation for:				
Buildings and improvements	(1,862,790)	(303,349)	-	(2,166,139)
Leasehold improvements	(39,462)	(16,595)	-	(56,057)
Furniture and equipment	(799,329)	(293,422)	44,044	(1,048,707)
Total Accumulated Depreciation	(2,701,581)	(613,366)	44,044	(3,270,903)
Total Capital Assets being depreciated	4,726,150	(189,572)	-	4,536,578
Capital Assets, Net	$ 5,961,110	$ (189,572)	$ -	$ 5,771,538

NOTE #6 – CAPITAL ASSETS, Continued

	Beginning Balance	Additions	Deletions and Reclassifications	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	4,625,007	101,143	-	4,726,150
Capital Assets, Net	$ 5,659,967	$ 301,143	$ -	$ 5,961,110

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. During Fiscal 2014 Tri-City made approximately $116,389 in improvements to the building and property and of this amount, the City of Pomona HUD loan has funded $90,017 of these improvements through a loan to Tri-City (*see Note#13).*

In fiscal 2014 and 2013, Tri-City wrote off $44,044 and $380,236 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 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).

NOTE #7 –BANKRUPTCY, Continued

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 Fiscal Years 2009 through 2013 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. Payments to Class 3 and Class 4 claims were also made during fiscal year ended June 30, 2014 which represented approximately 19% of each Class's allowed claims for a total payment of $2,030,344. 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 contract with LAC DMH scheduled to terminate on June 30, 2014 was renewed for three years ending June 30, 2017.

The claims identified as "Bankruptcy Liabilities" in the amount of $8,518,967 and $10,549,311 as of June 30, 2014 and 2013, 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, 2014 to the claimants.

The bankruptcy liabilities as of June 30, 2014 and 2013 are summarized by Bankruptcy Claim Class as follows:

	2014	2013
Class 2 — General Unsecured Claims	$ 38,581	$ 88,095
Class 3 — Unsecured Claim of CAL DMH, net	5,136,213	6,335,918
Class 4 — Unsecured Claim of LAC DMH	3,344,173	4,125,298
Total Bankruptcy Liabilities	$ 8,518,967	$ 10,549,311

NOTE #7 –BANKRUPTCY, Continued

The classes of Bankruptcy claims are described below.

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

	2014	2013
Accounts payable and other accrued liabilities	$ 31,527	$ 66,238
Accrued vacation and sick leave	7,054	21,857
Total Class 2 — General Unsecured Claims	$ 38,581	$ 88,095

The balances at June 30, 2014 and 2013 reflect the final allowed Class 2 claims less bankruptcy debt payments made and negotiated (cashed). 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, 2014 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 at which time the amounts will be recorded into income.

- 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.

- 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.

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

The prior claims amount of $6,335,918 at June 30, 2013 reflected the final allowed Class 3 claims per the plan of $6,601,182 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, less the claim payment made by Tri-City in Fiscal 2013. The decrease in the Class 3 liability to $5,136,213 at June 30, 2014 reflects Tri-City’s additional bankruptcy payments made to CAL DMH during Fiscal 2014.

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

The prior claims amount of $4,125,298 at June 30, 2013 reflected the final allowed Class 4 claims per the plan of $4,298,010 less the claim payment made by Tri-City in Fiscal 2013. The final allowed claim consisted of $5,306,383 in overpayment of Medi-Cal EPSDT advances resulting 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 $3,344,173 at June 30, 2014 reflects Tri-City’s additional bankruptcy payments made to LAC DMH during Fiscal 2014.

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". As of June 30, 2014 the only settlement and audit letters received have been for services provided pre-bankruptcy and therefore are currently included within the Bankruptcy Liabilities balance.

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 $2,213,921 at June 30, 2014 and $1,882,243 at June 30, 2013. 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 2014. The reserves for fiscal years 2008 through 2014 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 either 1) not been settled or reviewed by the State 2) are subject to future audits or 3) have been audited but audit appeals remain outstanding, 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 2015. Reserves for third party payor settlements of $3,344,173 and $4,125,298 are included in "Bankruptcy Liabilities" at June 30, 2014 and 2013, 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 payments made in fiscal 2014.

Cost Reports Payable

At June 30, 2014 and 2013, Tri-City reflected $5,136,213 and $6,335,918, 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, 2013 balances reflect the claim payments made by Tri-City in fiscal 2014. 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, 2014 and 2013 was $14,695 and $24,787, 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 2014 and 2013 were 9.584 percent and 8.777 percent, respectively, for miscellaneous employees. The rates for 2014 and 2013 were determined by an actuarial valuation of the plan as of June 30, 2011 and 2010, 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
6/30/2014	$723,353	100%
6/30/2013	$631,046	100%
6/30/2012	$518,587	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, 2014 and 2013:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
June 30, 2014	$ 978,548	$ -	$ (21,549)	$ 956,999	$ 22,665
June 30, 2013	$ 1,000,000		$ (21,452)	$ 978,548	$ 21,547

On June 25, 2013, the Tri-City's mortgage note was refinanced for $1,000,000 with monthly payments of $5,888 commencing on July 25, 2013 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 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 required balances are restored. Tri-City was in compliance with this cash requirement at June 30, 2014 and 2013.

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
2015	$ 22,665	$ 47,996
2016	22,440	46,983
2017	25,005	45,655
2018	26,303	44,358
2019	27,668	42,993
2020 to 2022	832,918	117,090
Total Payments	$ 956,999	$ 345,075
Current Principal Portion	$ 22,665	
Long-term Principal Portion	$ 934,334	

Interest expense on the mortgage note for the fiscal years ended June 30, 2014 and 2013 was $49,114 and $49,205, respectively.

NOTE #11 –MHSA REVENUES RESTRICTED FOR FUTURE PERIOD AND 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 MHSA Revenues Restricted for Future Period in Deferred Inflow of Resources (see below) until the beginning of the period for which it was allocated and available for use. In addition, unrequested and unapproved MHSA funds received are included in Noncurrent Liabilities as Unearned MHSA Revenues.

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. Based on previous DHCS guidance in Fiscal 2013 Tri-City had estimated that there was approximately $399 thousand that could be to reverted in PEI and Innovation funds previously received and therefore reflected this amount as due to other governments at June 30, 2013. During Fiscal 2014 the DHCS issued new guidance with regards to calculating reversion. As a result, at June 30, 2014 Tri-City has determined that based on this guidance, the reversion amount is not determinable and not probable to be collected. Therefore, the previous amount of $399 thousand recorded as a liability in “Due to Other Governments” has been reclassified as “Unearned MHSA Revenues”.

As of July 1, 2012 Tri-City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which was required to be retroactively applied. Accordingly, Tri-City has reclassified the unearned MHSA Revenue (previously recorded as a current liability) as MHSA Revenues Restricted for Future Period under the Deferred Inflow of Resources caption on the Statements of Net Position as of June 30, 2014 and 2013 in the amounts of $6,185,724 and $7,623,540, respectively.

NOTE #11 –MHSA REVENUES RESTRICTED FOR FUTURE PERIOD AND UNEARNED MHSA REVENUES, Continued

The following table reflects the activity in the MHSA Revenues Restricted For Future Period and Unearned MHSA Revenue Accounts for CSS, PEI, INN, WET and CFTN programs and unapproved plans during the fiscal years ended June 30, 2014 and 2013:

	Balance Beginning of Year	Funding Received	Amounts Recognized as Non-Operating Revenue	Reclassification of Previously Unapproved Programs	Balance End of Year
June 30, 2014					
CSS	$ 4,533,682	$ 5,163,725	$ (5,656,495)	$ -	$ 4,040,912
PEI	1,391,910	1,290,932	(1,781,033)	384,680	1,286,489
INN	730,241	339,719	(730,241)	133,186	472,905
WET	226,350	-	(226,350)	278,219	278,219
CFTN	741,357	-	(741,357)	107,199	107,199
MHSA Revenues Restricted for Future Period	$ 7,623,540	$ 6,794,376	$ (9,135,476)	$ 903,284	$ 6,185,724
Unearned MHSA Revenues	$ 2,829,292	$ -	$ -	$ (504,284)	$ 2,325,008
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
MHSA Revenues Restricted for Future Period	$ 4,125,857	$ 10,221,711	$ (8,052,060)	$ 1,328,032	$ 7,623,540
Unearned MHSA Revenues	$ 4,556,324	$ -	$ -	$ (1,727,032)	$ 2,829,292

NOTE #12 – RESTRICTED NET POSITION

Restricted Net Position represents the amounts which are restricted due to enabling legislation related to MHSA Proposition 63 revenues. The following table summarizes the restricted net position as of June 30, 2014 and 2013 by MHSA Program Plans.

	2014	2013
Funds restricted for approved MHSA		
Community Services and Supports	$ 2,056,806	$ 1,842,377
Prevention and Early Intervention	479,045	261,165
Innovation	633,437	387,153
Workforce, Education and Training	196,434	162,380
Capital Facilities and Technology Needs	321,718	66,671
Prudent Reserves	3,461,200	2,796,200
Total Restricted Net Position	$ 7,148,640	$ 5,515,946

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, 2014 and 2013.

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 became 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 and payments have continued through Fiscal 2014. 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.

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 possible changing economic conditions 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.

City of Pomona Housing and Urban Development (HUD) Loan

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, 2014, the outstanding balance of the loan was $90,016.

NOTE #14 – OPERATING LEASES

Tri-City has entered into various operating leases for the use of equipment, parking facilities and office space. The lease payments range from $108 to $11,303 per month with terms ranging from "month-to-month" to eight-year terms as follows:

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, 2013 the monthly rent was increased to $6,997. The rent expense for this facility at June 30, 2014 and 2013 was $83,442 and $81,916, respectively.

Office Space – Royalty Building

Tri-City leases various suites within a medical building complex from 1900 Royalty Drive, LLC. These leases are for office space for various mental health programs including Children and Family Outpatient Clinic and Full Service Partnership services, as well as other programs approved under the Prevention and Early Intervention Plan, the Community Services and Support Plan, and the Workforce and Education Plan.

NOTE #14 – OPERATING LEASES, Continued

On June 1, 2014 Tri-City entered into a new agreement for the rental of additional office space suites and simultaneously cancelling (without penalties) the lease to another suite within the medical building complex. During fiscal year ended June 30, 2014, there were a total of four leases with monthly payments ranging from $2,646 to $11,303 and with original term leases of five years. With the addition of the new eight year lease signed on June 1, 2014, Tri-City expanded all leases to an eight year lease with lower cost per square foot. The remaining minimum required payments for the Royalty Building leases are as follows:

Years Ended 30-Jun	Lease Payments
2015	$ 300,693
2016	309,757
2017	319,162
2018	328,963
2019	339,160
2020-2022	1,050,858
	$ 2,648,593

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 2014 and 2013 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 had entered into a one year master lease with a monthly rental payment of $5,315 however as of June 1, 2014 the lease is now on a month-month basis with the same monthly payment. In order to develop tenant self-reliance and independence, Tri-City charges a nominal fee as rent based on income criteria. Rent expense paid by Tri-City was $63,780 and $60,865 at June 30, 2014 and 2013, respectively. This expense is reflected as an operating expense in "Client lodging, transportation, and supply expense."

Parking Space Lease

On June 1, 2014, Tri-City entered into a one year temporary parking agreement with a neighboring business for rental of parking spaces for the Wellness Center visitors. The rent is $350 per month.

NOTE #14 – OPERATING LEASES, Continued

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." Rental payments for fiscal 2014 and 2013 were $23,766 and $23,766, respectively.

The remaining minimum required payments on equipment leases are as follows:

Years Ended 30-Jun	Lease Payments
2015	$ 57,454
2016	44,242
2017	35,091
2018	17,835
2019	5,212
	$ 159,834

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	$ 1,000,000	Unlimited	Zero
Directors and Officers/EPL	$ 2,000,000	$ 2,000,000	$25,000/$50,000
Automobile	$ 1,000,000	$ 1,000,000	$ 1,000
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

The Los Angeles County Board of Supervisors approved Tri-City's three year contract with LAC DMH to provide Medi-Cal services to the residents of the tri-cities of Pomona, La Verne and Claremont which was renewed in June 2014 for fiscal years 2015 through fiscal 2017. The annual maximum contract amount is $6.2 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 2014 and $70,236 in 2013 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)*.

NOTE #18 – CHANGE IN ACCOUNTING PRINCIPLES

As the result of implementing GASB Statement No 65, Tri-City has effectively reclassified the current unearned MHSA Revenues to Deferred Inflow of Resources as MHSA Revenues Restricted for Future Period as of July 1, 2012 in the amount of $4,125,857. The effect of this change, as of June 30, 2012, is a decrease of Unearned MHSA Revenues of $4,125,857 and a corresponding increase in Deferred Inflow of Resources of $4,125,857.

	Previously Presented Balance at June 30, 2012	Restatement	Restated Balance at June 30, 2012
Unearned MHSA Revenues (Current Liabilities)	$ 4,125,857	$ (4,125,857)	$ -
Deferred Inflow of Resources - MHSA Revenues Restricted for Future Period	-	4,125,857	4,125,857

INDEPENDENT AUDITORS' 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
Claremont, 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, 2014 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 9, 2014. Our report included an emphasis of matter regarding Tri-City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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.

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.*

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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 9, 2014