TRI-CITY MENTAL HEALTH CENTER

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2015

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FINANCIAL STATEMENTS

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

VALUE THE DIFFERENCE

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 year ended June 30, 2015, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-City Mental Health Center as of June 30, 2015, and the changes in financial position, and its cash flows for the year 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) Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

We have previously audited Tri-City's 2014 financial statements, and we expressed unmodified opinions on the financial statements in our report dated October 9, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability and schedule of contributions, on pages 3-14 and 50-52 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 November 12, 2015, 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
November 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2015

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 year ended June 30, 2015, along with comparative information for fiscal years ended 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 five 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 1,267 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 have been completed in fiscal 2014-15 with two new Innovation programs that will begin in fiscal 2015-16. In November 2012, the Workforce, Education and Training (WET) Plan was approved and in May 2014 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 2014. 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 *Statement of Net Position*, the *Statement of Revenues, Expenses and Changes in Net Position* and the *Statement 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 *Statement of Net Position* presents information on all of Tri-City's assets, liabilities, and deferred inflow and outflow of resources, with the difference 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 *Statement 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 *Statement of Cash Flows* reports inflows and outflows of cash and is classified into four components:

- *Cash flows from operating activities* include transactions and events reported as components of the operating income in the Statement 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, 2015, 2014 and 2013:

Statement of Net Position

	2015	2014	2013
Assets			
Current Assets	$ 28,688,492	$ 24,005,286	$ 24,804,706
Capital Assets, Net	5,546,246	5,771,538	5,961,110
Other Assets	196,201	157,423	93,604
Total Assets	34,430,939	29,934,247	30,859,420
Deferred Outflows of Resources			
Deferred Outflows Related to Net Pension Liability	976,390	-	-
Total Deferred Outflows of Resources	976,390	-	-
Liabilities			
Current Liabilities	4,578,844	3,961,246	3,865,568
Noncurrent Liabilities (including Unearned MHSA Revenues)	1,121,089	3,349,358	3,786,293
Net Pension Liability	2,460,332	-	-
Bankruptcy Liabilities	7,966,598	8,518,967	10,549,311
Total Liabilities	16,126,863	15,829,571	18,201,172
Deferred Inflows of Resources			
MHSA Revenues Restricted for Future Period	8,365,627	6,185,724	7,623,540
Deferred Inflows Related to Net Pension Liability	1,354,263	-	-
Total Deferred Inflows of Resources	9,719,890	6,185,724	7,623,540
Net Position			
Net Investment in Capital Assets	4,611,912	4,814,539	4,982,562
Restricted for MHSA Programs	9,691,515	7,148,640	5,515,946
Unrestricted	(4,742,851)	(4,044,227)	(5,463,800)
Total Net Position	$ 9,560,576	$ 7,918,952	$ 5,034,708

- **Total Assets** are comprised of cash, accounts receivable, capital assets and deposits.
  - o *Comparison of June 30, 2015 to June 30, 2014*. At June 30, 2015, Tri-City reflected an increase in total assets of approximately $4.5 million. Total cash and investments at June 30, 2015 was approximately $23.5 million reflecting an increase of approximately $4.8 million from the balance at June 30, 2014 of $18.7 million. Amounts attributing to this increase include the receipt of MHSA and Realignment funding that exceeded cash used in operating and capital activities, and a decrease in accounts receivable of approximately $144 thousand. Additionally, Tri-City was in receipt of $388 thousand for prior year SB90 claims and in receipt of $707 thousand relating to the fiscal 2008-09 cost report settlement. Net capital assets decreased by approximately $225 thousand representing purchases of approximately $386 thousand less depreciation of approximately $611.

- *Comparison of June 30, 2014 to June 30, 2013*. 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.

- **Deferred Outflows of Resources**

  - *Comparison of June 30, 2015 to June 30, 2014.* As of July 1, 2014 Tri-City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* which was implemented during Fiscal 2015 and as of July 1, 2014 (as further disclosed at Note #9B to the financial statements). This statement required the recognition of Tri-City's net pension liability on the Statement of Net Position. In addition, certain amounts paid during the fiscal year are deferred and classified within a new caption titled Deferred Outflow of Resources. This separate financial statement caption represents a future decrease to net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that time. Contributions made to CalPERS during fiscal 2014 and 2015 have not entirely been captured as part of the actuarial valuation prepared by CalPERS and as such a timing difference exists for these contributions. Accordingly, Tri-City has classified a portion of the contributions made in fiscal 2014 and the entire contribution made in fiscal 2015 in the total amount of $976,390 as Deferred Outflows of Resources at June 30, 2015, net of applicable amortization.

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

  - *Comparison of June 30, 2015 to June 30, 2014*. Total liabilities increased by approximately $297 thousand from $15.8 million at June 30, 2014 to $16.1 million at June 30, 2015. This change is mainly due to the recognition of a net pension liability as previously noted and more fully described at Note #9B of the financial statements. Tri-City's proportionate share of the plan's pooled net pension liability at June 30, 2015 is $2,460,332 and was required to be recognized as of July 1, 2014 (Fiscal 2015). Offsetting this increase to liabilities was a decrease in Unearned MHSA Revenues in the approximate amount of $2.3 million and a decrease to bankruptcy liabilities through the distribution of approximately $500 thousand in bankruptcy payments during fiscal 2015. At June 30, 2015, noncurrent unearned MHSA revenues were approximately $63 thousand as compared to $2.3 million at June 30, 2014. The unearned MHSA revenue recorded in noncurrent liabilities at June 30, 2015 and 2014 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 recommendations by the Mental Health Commission and final Governing Board approval. During fiscal 2015 and 2014, as a result of new MHSA programs and updates, approximately $8.3 million and $6.1 million of the noncurrent unearned MHSA revenue was identified as approved and available to be spent in fiscal 2016 and 2015, 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 $23 thousand due to the debt service payments made during the fiscal year.

The City of Pomona HUD loan at June 30, 2015 in the amount of $147 thousand increased from approximately $90 thousand at June 30, 2014, which related to improvements made to a home, during fiscal 2015 and 2014 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.

- o *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.

- **Deferred Inflows of Resources** is comprised of MHSA Revenues Restricted for Future Period and Deferred Charges Related to Net Pension Liability.

  - o *Comparison of June 30, 2015 to June 30, 2014*. 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 appropriately reclassified the MHSA Revenue Restricted for Future Periods (previously titled unearned MHSA revenues included in current liabilities) as Deferred Inflows of Resources on the Statement of Net Position. At June 30, 2014 and June 30, 2015 the amounts reported for MHSA Revenues Restricted for Future Period under this caption totaled the approximate amounts of $6.2 million and $8.3 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 caption reflect the receipt of MHSA funds in fiscal 2015 and 2014 and prior fiscal years not permitted for use during that fiscal year, but allocated to be used at the beginning of the next fiscal year per an approved MHSA plan. In addition to MHSA Revenues Restricted for Future Period, the Deferred Inflows of Resources caption now also includes Deferred Inflows Related to Net Pension Liability. As noted previously, and as more fully described at Note #9B to the financial statements, GASB No. 68 was implemented during fiscal 2015. This statement required the recognition of Tri-City's proportionate share of the net pension liability on the Statement of Net Position. As part of the recognition of this liability, certain changes and expenses associated with the actuarially determined liability are deferred and classified within this caption titled Deferred Inflows of Resources.

As noted above, this separate financial statement caption represents a future increase to net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. Accordingly, Tri-City has classified the net effect of these changes in the amount of $1,354,263 as Deferred Inflow of Resources at June 30, 2015, net of applicable amortization.

- o *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 Statement 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.

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

  - o *At June 30, 2015*. Tri-City's net position at June 30, 2015 was approximately $9.5 million, which is the result of total assets of $34.4 million and total deferred outflow of resources of $976 thousand less total liabilities and deferred inflow of resources of $16.1 million and $9.7 million, respectively. Net position is also comprised of Net Investment in Capital Assets of approximately $4.6 million (capital assets less the mortgage liability), Net Position Restricted for MHSA Programs of approximately $9.6 million, and negative Unrestricted Net Position of approximately $4.7 million, as restated per the implementation of GASB No. 68. The increase of $2.5 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, 2015 include approximately $8 million in bankruptcy liabilities that remain outstanding.

  - o *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 from 2013 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. The Net Position amounts noted above did not include the effects of GASB Statement No. 68, *Accounting and Financial Reporting For Pensions –an amendment of GASB Statement No. 27*. As noted above, the GASB Statement was not required to be implemented until July 1, 2014 (Fiscal 2015) which resulted in a decrease of the July 1, 2014 net position to $4,936,815.

The following table shows the change in net position during the fiscal years ended June 30, 2015, 2014, and 2013:

Revenue, Expenses and Changes in Net Position

	2015	2014	2013
Operating Revenues:			
Medi-Cal - Federal Financial Portion	$ 4,661,913	$ 3,636,502	$ 2,999,640
Medi-Cal - State EPSDT	1,207,732	1,608,773	1,664,800
Medicare	10,263	12,223	12,186
Contracts	41,647	67,215	20,389
Rental Income	62,901	53,787	58,775
Other Operating Income	3,801	10,569	10,065
Total Operating Revenue	5,988,257	5,389,069	4,765,855
Operating Expenses	15,491,200	15,439,851	14,196,311
Operating Loss	(9,502,943)	(10,050,782)	(9,430,456)
Non Operating Revenues (Expenses), Net	13,442,888	12,876,744	11,777,101
Income before Special Items	3,939,945	2,825,962	2,346,645
Special Items:			
Settlement of Bankruptcy Debt and Accounts Receivable	683,816	58,282	301,212
Total Special Items	683,816	58,282	301,212
Change in Net Position	4,623,761	2,884,244	2,647,857
Net Position, Beginning of Year, As Restated (Note#18)	4,936,815	5,034,708	2,386,851
Net Position, End of Year	$ 9,560,576	$ 7,918,952	$ 5,034,708

Fiscal Year 2015 to 2014 Comparisons

- **Operating Revenues** — Operating revenues increased approximately $600 thousand. This increase is primarily due to higher Medi-Cal revenues, net of provision for doubtful accounts, of approximately $624 thousand, an 11.9% increase. Approximately $460 thousand of this increase is from Medi-Cal revenues produced by increased Full Service Partnership services provided in Fiscal 2015 under the MHSA CSS plan and approximately $164 thousand in Medi-Cal revenues reflected during 2015 for the outpatient clinic operations. In addition to Medi-Cal revenues, Tri-City recorded an increase in revenue from rents Tri-City receives from the lease of supportive housing to its clients.

- **Operating Expenses** — Total operating expenses increased by approximately $51 thousand (.003%) in fiscal 2015 as compared to fiscal 2014. This increase was mainly due to increased salaries and benefits of approximately $508 thousand, increased facility and equipment costs of approximately $55 thousand and increased client costs of approximately $62 thousand. These increases were offset by a decrease to other operating costs of approximately $572 thousand.

Also, as noted previously and as more fully disclosed at Note #9B to the financial statements, GASB Statement No. 68 was implemented during Fiscal 2015. The implementation of this GASB required the recognition of Tri-City's proportionate share of the net pension liability determined by CalPERS. This implementation resulted in a decrease to total salaries and benefits expense by approximately $143 thousand, which is the net amount of the various changes affecting the liability reported on the actuarial valuation dated June 30, 2013 through the measurement date, June 30, 2014. Prior to the recognition of the above noted pension related expenses, an increase in total operating expenses of approximately $279 thousand was for outpatient clinic services and a decrease of total operating expenses of approximately $83 thousand was attributed to MHSA programs. During the year, previously vacant clinical positions were filled in the outpatient clinic and the Full Service Partnership programs. As such, the main increase for both the outpatient clinic and MHSA operations was due to an increase in salaries and benefits expense of approximately $154 thousand and $498 thousand, respectively. The increase in salaries and benefits expense to MHSA operations was offset by a decrease in other operating costs of approximately $681 thousand. Total other operating expenses decreased by approximately $572 thousand, primarily due to the fact that Tri-City cancelled an agreement for clinical services with a provider who previously provided outpatient services for Tri-City clients, and also as a result of cancelling professional contract services provided to the MHSA operations.

- **Operating Loss** — Operating losses do not include revenues from Realignment funding or MHSA funding, which are two of Tri-City's 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 $9.5 million in fiscal 2015 compared to $10 million in 2014. The decrease in operating losses resulted from higher operating revenues which included higher Medi-Cal revenues as discussed above of approximately $624 thousand. Although a reduction in other operating costs of approximately $572 thousand was noted during fiscal 2015, an increase of approximately $508 thousand in salaries and benefits expense offset this reduction.

- **Non-Operating Revenues (Expenses), Net** — Non-operating revenues (expenses) were approximately $13.4 million in fiscal 2015 and $12.9 million in fiscal 2014, an increase of approximately $566 thousand. This increase is mainly due to a net increase of MHSA funding recognized as non-operating revenues in fiscal 2015. Approximately $400 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 Navigator program. Approximately $825 thousand of the increase is the result of the adoption of the new Capital Facilities and Technology Needs (CFTN) plans in fiscal 2015 for the purchase of a new building that was targeted to close prior to fiscal 2015 year end. However, the actual transaction was finalized in July 2015 of fiscal year 2016. These increases were offset by a decrease in INN program revenue of $257 thousand as a result of the conclusion the Cognitive Enhancement Therapy (CET) program and the Integrated Services program during fiscal 2015, in addition to decreases in recognition of revenue of approximately $642 thousand within the CFTN plan due to a decrease in expected expenses for programs that are close to conclusion including the Electronic Health Record and the Monitoring & Service Outcome programs.

- **Special Items** — Special items are the result of Tri-City's bankruptcy filing in fiscal 2004 and includes related settlement of pre-bankruptcy debt, pre-bankruptcy receivables and bankruptcy professional fees. During fiscal 2015 Tri-City received a payment from the State of approximately $388 thousand for pre-bankruptcy SB90 claims that were previously 100% reserved with the expense reflected under Special Items. Therefore, the income related to the collection of these previously reserved receivables were also reflected under Special Items.

In accordance with Tri-City's Bankruptcy Plan with regards to unclaimed bankruptcy payments to claimants, Tri-City recognized approximately $38 thousand as Bankruptcy Debt Settlement income. In addition, as further explained at Note 5, Tri-City recognized $257 thousand as Bankruptcy Settlement income relating to a receivable for a favorable outcome on a pre-petition EPSDT appeals settlement for Fiscal 2002-03.

- **Changes in Net Position —** Tri-City's net position as of June 30, 2015 increased by approximately $1.7 million compared to fiscal year 2014. This increase includes a positive change in net position for fiscal 2015 of approximately $4.6 million offset by the restatement of beginning net position at July 1, 2014 from approximately $7.9 million to approximately $4.9 million, a reduction of approximately $3 million as a result of the implementation of GASB No. 68. The change in net position of $4.4 million for fiscal 2015 relates to revenues and non-operating income exceeding operating expenses. 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 $2.4 million, as a result of Medi-Cal revenues generated from the MHSA FSP Programs which offset the expenses during the year. The remaining increases in Net Position relate primarily to the receipt of $388 thousand in prior year SB90 claims received from the state through LA DMH which related to services provided prior to the bankruptcy (also part of the bankruptcy settlement), and the recording of an accounts receivable in the amount of $257 thousand relating to a favorable outcome of a pre-petition EPSDT appeals settlement for Fiscal 2002-03 (as further explained at Note 5 to the financial statements), and as such are classified as Special Items in the Statement of Revenues, Expenses and Changes in Net Position. The restatement of beginning net position arose from the recognition of Tri-City's proportionate share of the Net Pension Liability in the amount of $3,705,490 (as further explained at Note #9B to the financial statements) as of July 1, 2014, which also resulted in a prior period adjustment to the beginning net position in the amount of $2,982,137 as disclosed at Note #18 to the financial statements. The recognition of the net pension liability was as a result of the required implementation of GASB Statement No. 68 during fiscal 2015 which among other disclosures, required the disclosure and recording of Tri-City's proportionate share of the pooled liability determined through the preparation of an actuarial valuation by CalPERS. Offsets to the net pension liability recognition as of July 1, 2014 included the recognition of contributions made by Tri-City during Fiscal 2014 as Deferred Outflows of Resources in the amount of $723 thousand (also as disclosed at Note #18 of the financial statements).

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.

Economic Factors

In January 2015, California's State Governor issued the 2015-16 Budget. Through review of this budget, it was noted the Health and Human Services Budget Summary addressed Medi-Cal expansion and related funding issues under Health Care Reform, however no impacts were noted to the 1991 Realignment. As noted in the Governor's Summary, the Mental Health Subaccount will not experience any changes to the original statutory formula. 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 2014-15. As previously noted, Realignment is the funding Tri-City uses to provide mental health outpatient services. Other areas addressed in the 2015-16 Budget Summary affecting mental health related to services that Tri-City does not currently provide, such as alcohol and substance abuse.

On January 1, 2014, the Affordable Care Act became effective, including the expansion of Medicaid (Medi-Cal) services to single adults ages 19 to 64. 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 2014-15 Tri-City experienced less than a 1% increase in its 1991 Realignment funding. Based on discussions with the California Behavioral Health Directors Association (CBHDA), the State's 2015-16 budget and CBHDA's current projections for fiscal 2015-16, Tri-City expects 1991 Realignment to remain level with 2014-15 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 2014-15 Tri-City received approximately 105% of the 2014-15 MHSA funds originally projected at the beginning of the year. Based on discussions with the California Behavioral Health Directors Association (CBHDA), the State's 2015-16 budget and CBHDA's current projections for fiscal 2015-16, Tri-City expects a decrease in MHSA funding for fiscal 2015-16 of approximately 12%. This decrease will not affect the currently approved MHSA programs.

Liquidity and Bankruptcy

At June 30, 2015, Tri-City had approximately $23.5 million in cash. Of this amount, approximately $17.9 million is cash that is immediately available but restricted only for the implementation and provision of services under approved MHSA programs, $5.6 million is unrestricted cash for Tri-City's outpatient clinic operations and approximately $63 thousand (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, 2014, with the exception of payments distributed that had not been cashed or claimed, all of the Class 2 General Unsecured claims were paid in full. 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 and 2015 Tri-City made additional payments to Class 3 and Class 4 of approximately $2 million and $513 thousand, respectively. As of June 30, 2015, Tri-City has made payments totaling $1.7 million to Class 3 and approximately $1.1 million to Class 4 Unsecured creditors representing 27% 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

STATEMENT OF NET POSITION
JUNE 30, 2015
(WITH COMPARATIVE AMOUNTS FOR 2014)

	2015	2014
ASSETS		
Current Assets:		
Cash and investments *(Note #4)*	$ 5,595,560	$ 3,433,058
Restricted cash and investments for MHSA programs *(Note #4)*	17,941,616	15,276,667
Accounts receivable, net of allowance for uncollectible accounts of $418,459 and $666,078 at June 30, 2015 and 2014, respectively *(Note #5)*	5,151,316	5,295,561
Total Current Assets	28,688,492	24,005,286
Noncurrent Assets:		
Land	1,234,960	1,234,960
Capital assets being depreciated, net of accumulated depreciation *(Note #6)*	4,311,286	4,536,578
Deposits *(Note #2f)*	196,201	157,423
Total Noncurrent Assets	5,742,447	5,928,961
Total Assets	34,430,939	29,934,247
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pensions *(Note #9c)*	976,390	-
LIABILITIES		
Current Liabilities:		
Accounts payable	547,682	398,691
Accrued payroll liabilities	269,385	219,624
Accrued vacation and sick leave	926,367	799,031
Due to other governments	307,314	307,314
Estimated third party payor settlements *(Note #8)*	2,504,385	2,213,921
Current portion of mortgage note payable *(Note #10)*	23,711	22,665
Total Current Liabilities	4,578,844	3,961,246
Noncurrent Liabilities:		
Mortgage note payable *(Note #10)*	910,623	934,334
City of Pomona HUD Loan (*Note #13*)	147,183	90,016
Bankruptcy liabilities *(Note #7)*	7,966,598	8,518,967
Net pension liability (*Note #9B*)	2,460,332	-
Unearned MHSA revenues *(Note #11)*	63,283	2,325,008
Total Noncurrent Liabilities	11,548,019	11,868,325
Total Liabilities	16,126,863	15,829,571
DEFERRED INFLOWS OF RESOURCES:		
MHSA revenues restricted for future period *(Note #11)*	8,365,627	6,185,724
Deferred inflows related to pensions *(Note #9B)*	1,354,263	-
Total Deferred Inflows of Resources	9,719,890	6,185,724
NET POSITION		
Net investment in capital assets	4,611,912	4,814,539
Restricted for MHSA programs *(Note #12)*	9,691,515	7,148,640
Unrestricted	(4,742,851)	(4,044,227)
Total Net Position	$ 9,560,576	$ 7,918,952

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

TRI-CITY MENTAL HEALTH CENTER

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014)

	2015	2014
Operating Revenues:		
Medi-Cal, net of provision for disallowances	$ 5,869,645	$ 5,245,275
Medicare	10,263	12,223
Contracts	41,647	67,215
Rental income	62,901	53,787
Patient fees and insurance	1,915	2,886
Other income	1,886	7,683
Total Operating Revenues	$ 5,988,257	$ 5,389,069
Operating Expenses:		
Salaries, wages and benefits	11,733,245	11,224,524
Facility and equipment operating costs	1,305,474	1,250,953
Client lodging, transportation, and supply expense	476,833	414,769
Depreciation	611,574	613,367
Other operating expense	1,364,074	1,936,238
Total Operating Expenses	15,491,200	15,439,851
Operating (Loss)	(9,502,943)	(10,050,782)
Non-Operating Revenues (Expenses):		
Realignment	3,819,469	3,690,390
MHSA funding	9,547,990	9,135,476
Contributions from member cities	70,236	70,236
Interest income	53,188	40,050
Interest expense	(47,995)	(59,408)
Total Non-Operating Revenues (Expenses)	13,442,888	12,876,744
Income before Special Items	3,939,945	2,825,962
Special Item:		
Settlement of bankruptcy debt and accounts receivable (Note #2c)	683,816	58,282
Change in Net Position	4,623,761	2,884,244
Net Position at Beginning of Year, as restated *(Note #18)*	4,936,815	5,034,708
Net Position at End of Year	$ 9,560,576	$ 7,918,952

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

TRI-CITY MENTAL HEALTH CENTER

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	$ 6,680,500	$ 5,355,993
Cash payments to suppliers and contractors	(3,036,168)	(3,661,381)
Payments to employees for salaries and benefits	(11,700,080)	(11,067,040)
Payments on Bankruptcy Unsecured Claims *(Note #7)*	(552,369)	(2,030,344)
Special items *(Note #2c)*	426,282	58,282
Net Cash Used by Operating Activities	(8,181,835)	(11,344,490)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funding from Mental Health Services Act	9,466,168	6,794,376
Realignment	3,819,469	3,690,390
Contributions from member cities	70,236	70,236
Net Cash Provided by Noncapital Financing Activities	13,355,873	10,555,002
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(386,282)	(423,795)
Principal paid on capital debt	(22,665)	(21,549)
Interest paid on capital debt	(47,995)	(59,408)
Proceeds from City of Pomona HUD Loan *(Note #13)*	57,167	90,016
Net Cash Used by Capital and Related Financing Activities	(399,775)	(414,736)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	53,188	40,050
Net Cash Provided by Investing Activities	53,188	40,050
Net Increase (Decrease) in Cash and Cash Equivalents	4,827,451	(1,164,174)
Cash and Cash Equivalents at Beginning of Year	18,709,725	19,873,899
Cash and Cash Equivalents at End of Year	$ 23,537,176	$ 18,709,725
Reconciliation of Cash to Statement of Net Position:		
Cash and Investments	5,595,560	3,433,058
Restricted cash and Investments	17,941,616	15,276,667
Total cash and Investments	$ 23,537,176	$ 18,709,725

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

TRI-CITY MENTAL HEALTH CENTER

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014)

	2015	2014
Reconciliation of Operating (Loss) from Operations to Net Cash Provided by Operating Activities:		
Operating (Loss)	$ (9,502,943)	$ (10,050,782)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	611,574	613,367
Special items, net *(Note #2c)*	683,816	58,282
Changes in assets and liabilities and deferred inflows and deferred outflows of resources:		
(Increase) decrease in accounts receivable, net of allowance	144,245	(364,754)
(Increase) in deposits	(38,778)	(63,819)
(Increase) in deferred outflow of resources	(253,037)	-
Increase in accounts payable	148,991	5,955
Increase in accrued payroll liabilities	49,761	67,714
Increase in accrued leave	127,336	89,770
(Decrease) in other accrued liabilities	-	(1,557)
Increase in estimate for third party payor settlements	290,464	331,678
Increase in deferred inflows of resources	1,354,263	-
(Decrease) in net pension liability	(1,245,158)	-
(Decrease) in Bankruptcy liabilities	(552,369)	(2,030,344)
Net Cash Used by Operating Activities	$ (8,181,835)	$ (11,344,490)

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 the Statement of Net Position, Statement of Revenues, Expenses, and Change in Net Position, and the Statement 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 Statement of Net Position. The Statement 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. In accordance with the Bankruptcy Plan, amounts received by LA DMH from the State relating to SB 90 claims on behalf of Tri-City, are to be passed through to Tri-City when collected. During fiscal 2015 Tri-City received a payment in the amount of $387,573 from LA DMH which was passed through from the State for SB 90 claims relating to fiscal year 2000-01. This amount was reflected as Bankruptcy Debt Settlement income. In accordance with the Bankruptcy Plan, unclaimed distributions over two years old become the property of Tri-City and therefore, in fiscal 2015 and 2014 Tri-City recognized $38,709 and $58,282, respectively, as Bankruptcy Debt Settlement income. In addition, Tri-City received notification from LA DMH of a favorable outcome on a pre-petition appeals settlement in the amount of $257,534 for Fiscal 2002-03. This is further explained at Note 5.

D. Cash and Cash Equivalents

For the purpose of the Statement 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, 2015 and 2014, 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, 2015 and 2014, Tri-City had deposits outstanding in the amounts of $196,201 and $157,423, respectively. At June 30, 2015, the deposit amounts include a $100,000 deposit for the purchase of a new building which is more fully described at Note 13.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 be cashed out upon separation. 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 had been previously reflected in the Statement of Net Position, and has been paid in accordance with the terms of the final Bankruptcy Plan approved and confirmed by the Court in August 2007. As of June 30, 2015 and June 30, 2014, 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 Statement 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 (now the Department of Health Care Services) 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.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 account that is funded through State taxes. This new Mental Health Fund is allocated to counties that are Mental Health Plans and is used to cover the State's required FFP match for EPSDT services as well as funds for newly realigned mental health services previously run by the State.

Tri-City is not a Mental Health Plan and will not directly receive "2011" Realignment. However, Tri-City will continue to receive "1991" Realignment directly from the State and will receive State EPSDT match for FFP funded by "2011" Realignment through its contract with LA DMH.

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 Statement 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 Statement 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 reported amounts and disclosures at the date of the financial statements. While management believes that these estimates are adequate as of June 30, 2015 and 2014, it is reasonably possible that actual results could differ from those estimates. Certain estimates relate to accounts receivable *(Note #5)*, deferred outflows and inflows of resources *(Note #9B)* and estimated third party payor settlements *(Note #8).*

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Net Position

Net position of Tri-City is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of those assets. Restricted net position consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Restricted net position is reduced by any liabilities payable from restricted assets. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted. The Statement of Net Position reports $9,691,515 and $7,148,640 of restricted net position, at June 30, 2015 and June 30, 2014, respectively, which include MHSA funds that are restricted for use in MHSA programs. Net Investment in Capital Assets of $4,611,912 and $4,814,539 are equal to Tri-City's capital assets at June 30, 2015 and June 30, 2014 (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 Statement 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 did not have any items that qualified for reporting in this category as of June 30, 2014; however, at June 30, 2015 Tri-City reported $976,390 in deferred outflows of resources which relate to the implementation of GASB Statement No. 68 as further explained at Note #9B.
In addition to liabilities reported on the Statement 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 had one item that qualified for reporting in this category as of June 30, 2014. Tri-City reports MHSA Revenues Restricted for Future Periods as 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. Additionally, Tri-City reported $1,354,263 in deferred inflows of resources which relate to the implementation of GASB Statement No. 68 as further explained at Note #9B.

R. Reclassifications

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

S. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Tri-City's California Public Employees Retirement System (CalPERS) plans and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

T. Comparative Data

Comparative data for the prior year has been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in Tri-City's financial position and operations.

NOTE #3 – NEW ACCOUNTING PRONOUNCEMENTS

Effective In Current Fiscal Year

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. This Statement was implemented by Tri-City during fiscal 2014-15 and as of July 1, 2014.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69**,** *Government Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Statement is effective for periods beginning after December 15, 2013. Tri-City has determined that there is no effect to the Financial Statements.

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. This Statement was implemented by Tri-City during fiscal year 2014-15 and as of July 1, 2014.

Effective in Future Years

GASB Statement No. 72 – In February of 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for periods beginning after June 15, 2015. Tri-City has not determined the effect of this Statement.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement is effective for periods beginning after June 15, 2015. Tri-City has not determined the effect of this Statement.

NOTE #3 – NEW PRONOUNCEMENTS, continued

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for periods beginning after June 15, 2016. Tri-City has not determined the effect of this Statement.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for periods beginning after June 15, 2017. Tri-City has not determined the effect of this Statement.

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement is effective for periods beginning after June 15, 2015. Tri-City has not determined the effect of this Statement.

GASB Statement No. 77 –In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to improve financial reporting by giving users of the financial statements essential information that is not consistently or comprehensively reported to the public at present. The users of the financial statements will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. This Statement is effective for periods beginning after December 15, 2015. Tri-City has not determined the effect of this Statement.

NOTE #4 – CASH AND INVESTMENTS

As of June 30, 2015 and 2014, cash and investments in the Statement of Net Position consisted of the following:

	2015	**2014**
Cash on hand	$ 2,530	$ 2,500
Deposits with financial institutions	4,396,313	2,610,478
Deposit with Local Agency Investment Fund (LAIF)	19,138,333	16,096,747
Total Cash and Investments	$ 23,537,176	$ 18,709,725

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, 2015 and 2014, $19,138,333 and $16,096,747, 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, 2015 and 2014, 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 $4,457,224 and $2,739,810, 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-rata 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 $19,138,333 and $16,096,747 at June 30, 2015 and 2014, 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 Statement of Net Position as restricted was $17,941,616 and $15,276,667 at June 30, 2015 and 2014, respectively. Restricted cash represents cash received from MHSA funding that is only available to use for expenses of MHSA programs approved under Tri-City's MHSA plans. Therefore amounts reflected on the Statement 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, 2015 and 2014, consisted of the following:

	2015	2014
Accounts Receivable:		
Medi-Cal	$ 4,551,939	$ 5,185,045
Medi-Cal (pre-petition appeals settlements)	257,534	-
Medicare	518	701
Realignment	609,225	609,225
Grants and Contracts	137,520	157,866
Interest & Other Receivables	13,039	8,802
Total Accounts Receivable	$ 5,569,775	$ 5,961,639
Less: Allowance for Doubtful Accounts	(418,459)	(666,078)
Accounts Receivable, Net	$ 5,151,316	$ 5,295,561

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. Commencing with fiscal 2014-15, this withhold was eliminated in the contract with LA DMH. At June 30, 2015 and 2014, Medi-Cal accounts receivable included approximately $2.1 million and $2.7 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 2010 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 expensed in fiscal 2015 and 2014 for doubtful accounts was approximately $207 thousand and $456 thousand, respectively.

The Medi-Cal receivable noted above in the amount of $257,534 for pre-petition appeals settlements relates to an EPSDT appeals settlement which was favorable to Tri-City for Fiscal 2002-03. Tri-City was notified of this recent settlement in October of 2015. As agreed to in a bankruptcy settlement agreement entered into with LA DMH and CAL DHCS, any Tri-City EPSDT amounts collected through LA DMH appeals process specifically relating to fiscal years 2002, 2003, and 2004 are to be utilized for bankruptcy distributions when collected.

NOTE #6 – CAPITAL ASSETS

The following schedule summarizes capital asset activity for the years ended June 30, 2015 and 2014:

	Beginning Balance	Additions	Deletions	Ending Balance
June 30, 2015:				
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	6,201,251	191,173	-	6,392,424
Leasehold improvements	93,147	15,000	-	108,147
Furniture and equipment	1,513,083	180,107	(37,875)	1,655,315
Total Capital Assets being depreciated	7,807,481	386,280	(37,875)	8,155,886
Less accumulated depreciation for:				
Buildings and improvements	(2,166,139)	(313,196)	-	(2,479,335)
Leasehold improvements	(56,057)	(18,167)	-	(74,224)
Furniture and equipment	(1,048,707)	(280,209)	37,875	(1,291,041)
Total Accumulated Depreciation	(3,270,903)	(611,572)	37,875	(3,844,600)
Total Capital Assets being depreciated	4,536,578	(225,292)	-	4,311,286
Capital Assets, Net	$ 5,771,538	$ (225,292)	$ -	$ 5,546,246

NOTE #6 – CAPITAL ASSETS, Continued

	Beginning Balance	Additions	Deletions and Reclassifications	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
	$ 5,961,110	$ (189,572)	$ -	$ 5,771,538

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 2015 and Fiscal 2014 Tri-City made approximately $139,155 and $116,389, respectively, in improvements to the building and property of this house. The City of Pomona HUD loan has funded $147,183 of these improvements through a loan to Tri-City (*see Note#13).*

In fiscal 2015 and 2014, Tri-City wrote off $37,875 and $44,044 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, CAL DHCS 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 DHCS will allow LAC DMH to pass through to Tri-City any EPSDT payments for Tri-City claims received by LAC DMH from CAL DHCS as a result of LAC DMH's EPSDT appeal settlement originated 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, beginning in May 2013 through June 2015, Tri-City made payments to Class 3 Unsecured CAL DMH and Class 4 Unsecured LAC DMH claims of $2,494,618 representing approximately 27% of each Class's allowed claims. The percentage of allowed claims that will be paid in future quarters depends on cash available, as defined per the Plan at the time and over the term of Tri-City's contract with LAC DMH. Per the Plan, payments on allowed claims will terminate concurrent with the termination of Tri-City's contractual relationship with LAC DMH. Tri-City's current three year contract with LAC DMH is scheduled to terminate on June 30, 2017.

The claims identified as "Bankruptcy Liabilities" in the amount of $7,966,598 and $8,518,967 as of June 30, 2015 and 2014, 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, 2015 to the claimants.

The bankruptcy liabilities as of June 30, 2015 and 2014 are summarized by Bankruptcy Claim Class as follows:

	2015	**2014**
Class 2 — General Unsecured Claims	$ -	$ 38,581
Class 3 — Unsecured Claim of CAL DMH, net	4,825,033	5,136,213
Class 4 — Unsecured Claim of LAC DMH	3,141,565	3,344,173
Total Bankruptcy Liabilities	$ 7,966,598	$ 8,518,967

NOTE #7 –BANKRUPTCY, Continued

The classes of Bankruptcy claims are described below.

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

	2015	2014
Accounts payable and other accrued liabilities	$ -	$ 31,527
Accrued vacation and sick leave	-	7,054
Total Class 2 — General Unsecured Claims	$ -	$ 38,581

The balances at June 30, 2015 and 2014 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 that remained at June 30, 2014 reflected claim payments that had not been cashed or negotiated and were therefore still reflected on the books as a liability on June 30, 2014. 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. During Fiscal 2014-15, $38,581 of Class 2 Claims was recognized into income.

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

The final allowed Class 3 claims per the plan of $6,601,182 consisted of $6,648,932 in overpayment of Medi-Cal FFP for pre-petition services as determined by the Short-Doyle/Medi-Cal cost report final audit settlements for the fiscal years ended June 30, 1997 through 2004, offset by $47,750 due to Tri-City for pre-petition services performed under the AB 2034 Program. The decrease in the Class 3 liability to $5,136,213 at June 30, 2014 and $4,825,033 at June 30, 2015 reflect Tri-City's bankruptcy payments made to CAL DMH during Fiscal years 2013, 2014 and 2015.

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

The final allowed Class 4 claim per the plan of $4,298,010 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 overpayment 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 and $3,141,565 at June 30, 2015 reflect Tri-City's bankruptcy payments made to LAC DMH during Fiscal 2013, 2014 and 2015.

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, 2015 the only outstanding liabilities related to 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 $2,504,385 at June 30, 2015 and $2,213,921 at June 30, 2014. 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 2009 through fiscal 2015. The reserves for fiscal years 2009 through 2015 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 settlement with the State, Tri-City expects that the County will pass on the settlement to Tri-City. Tri-City believes that the settlement for fiscal year 2010 will occur in fiscal 2016. Reserves for third party payor settlements of $3,141,565 and $3,344,173 are included in "Bankruptcy Liabilities" at June 30, 2015 and 2014, 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 through fiscal 2015.

Cost Reports Payable

At June 30, 2015 and 2014, Tri-City reflected $4,825,033 and $5,136,213, 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, 2014 balances reflect the claim payments made by Tri-City in fiscal 2015. These liabilities are reflected in "Bankruptcy Liabilities".

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION

Tri-City Mental Health Center offers the following plans:

A. 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. Employees are not required and do not contribute to the plan. 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. Benefit terms may be amended by Tri-City, the plan sponsor. Tri-City's contribution to the MPP for the fiscal years ended June 30, 2015 and 2014 was $10,703 and $14,695, respectively.

B. California Public Employees' Retirement System (PERS)-Cost Sharing Employer Plans

As previously described at Note #3 New Accounting Pronouncements, the implementation of GASB Statement No. 68 was required and was implemented by Tri-City as of July 1, 2014. Among other requirements, this statement required the recognition of Tri-City's proportionate share of the Plans' Net Pension Liability on the Statement of Net Position. As such, Tri-City has recognized a noncurrent liability as Net Pension Liability, in the amount of $2,460,332 on the Statement of Net Position. In addition, the implementation of this statement requires the disclosure of specific information relating to the actuarial valuation and the related plans which are disclosed below.

Plan Description – Employees of Tri-City participate in 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. Tri-City's plans consist of both the Miscellaneous Classic Pool and the PEPRA Miscellaneous Pool. On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The establishment of the PEPA pool created new retirement formulas for newly hired members. All qualified permanent and probationary employees are eligible to participate in PERS. Benefit provisions under the Plans are established by State statute and Tri-City resolution.

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information can be found on the CalPERS website at: http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml

Benefits Provided – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 for classic members and age 52 for PEPRA members with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service; however, must be actively employed at the time of disability. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Classic	**PEPRA**
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-62
Monthly benefits, as a % of annual salary *	1.426% to 2.0%	1.0% to 2.0%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	10.423%	6.25%

* These percentages will vary based on age of retiree and could increase for retirees who prolong their retirement.

Contributions – Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Tri-City is required to contribute the difference between the actuarially determined rate and the contribution rates of employees. The contractually required employer contribution rate for fiscal years 2015 and 2014 were 10.423 percent and 9.584 percent, respectively, for the Miscellaneous Classic Pool, and 6.25 percent and zero percent for fiscal years 2015 and 2014, respectively, for the PEPRA Miscellaneous Pool. The rates for 2015 and 2014 were determined by an actuarial valuation of the plan as of June 30, 2012 and 2011, respectively.

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

Tri-City employees enrolled in the PERS are required to contribute the "employee" contribution of 7% for the Miscellaneous Classic Pool and 6.25% for the Miscellaneous PEPRA Pool of their annual covered salary. 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.

For the year ended June 30, 2015, the contributions for each Plan were as follows:

	Miscellaneous Classic	Miscellaneous PEPRA	Total
Contributions - employer	$ 596,691	$ 165,855	$ 762,546

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, Tri-City's reported net pension liabilities for its proportionate shares of the net pension liability of each Plan are as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous-Classic Plan	$ 2,458,026
Miscellaneous-PEPRA Plan	2,306
Total Net Pension Liability	$ 2,460,332

Tri-City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014 and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. Tri-City's proportion of the net pension liability was based on a projection of Tri-City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

Tri-City's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 as a follows:

	Miscellaneous Classic Plan	Miscellaneous PEPRA Plan
Proportion - June 30, 2013	.0459%	.00004%
Proportion - June 30, 2014	.0395%	.00004%
Change in prorportion- Increase (Decrease)	(0.0064)%	0.00%

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

At the year ended June 30, 2015, Tri-City recognized pension expense of $618,614 associated with the net pension liability. At June 30, 2015, Tri-City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources		June 30, 2015
Tri-City contributions subsequent to measurement date	$	762,546
Change in proportion and differences between Tri-City's contributions and proportionate share of contributions		213,844
Total Deferred Outflows		976,390
Deferred Inflows of Resources		
Net difference between expected and actual earnings on pension plan investments		(1,100,212)
Differences between expected and actual experience		(254,051)
Total Deferred Inflows		(1,354,263)
Amounts Not Amortized		
Tri-City's contributions subsequent to measurement date		(762,546)
Net Total Deferred Outflows and Inflows to be Amoritzed	$	(1,140,419)

The amount of $762,546 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,		
2016	$	289,413
2017		289,413
2018		286,541
2019		275,052
Total	$	1,140,419

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions.

	Miscellaneous Classic	**Miscellaneous PEPRA**
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.5%	7.5%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality Rates	Derived using CalPERS membeship Data for all funds	

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website at: http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same for each Plan and are summarized in the following table:

Asset Class	New Strategic Allocation	Expected Real Rate of Return Years 1 thru 10	Long-Term Expected Real Rate of Return Years 11 thru 60
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.80%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	(0.55)%	(1.05)%
Total	100%		

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.5% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.5% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section at: https://www.calpers.ca.gov/docs/forms-publications/gasb-crossover-testing-2013.pdf.

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

Sensitivity of Tri-City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following table presents the net pension liability of Tri-City for each Plan, calculated using the discount rate of 7.50% for each Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

	Miscellaneous Classic	Miscellaneous Pepra	Totals
1% Decrease	6.50%	6.50%	
Tri-City's Proportionate Share of the Net Pension Liability	$ 4,907,528	$ 4,109	$ 4,911,637
Current Discount Rate	7.50%	7.50%	
Tri-City's Proportionate Share of the Net Pension Liability	$ 2,458,026	$ 2,306	$ 2,460,332
1% Increase	8.50%	8.50%	
Tri-City's Proportionate Share of the Net Pension Liability	$ 425,172	$ 810	$ 425,982

Pension Plan Fiduciary Net Position **–** Detailed information about each pension plans' fiduciary net position is available in the separately issued CalPERS financial reports.

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, 2015 and 2014:

	Balance Beginning of Year	**Additions**	**Deletions**	**Balance End of Year**	**Due Within One Year**
June 30, 2015	$ 956,999	$ -	$ (22,665)	$ 934,334	$ 23,711
June 30, 2014	$ 978,548		$ (21,549)	$ 956,999	$ 22,665

On June 25, 2013, 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, 2015 and 2014.

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
2016	$ 23,711	$ 46,949
2017	25,071	45,589
2018	26,372	44,288
2019	27,740	42,920
2020	29,066	41,595
2021 to 2022	802,374	75,261
Total Payments	$ 934,334	$ 296,602
Current Principal Portion	$ 23,711	
Long-term Principal Portion	$ 910,623	

Interest expense on the mortgage note for the fiscal years ended June 30, 2015 and 2014 was $47,995 and $49,114, 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. During Fiscal 2014 the DHCS issued new guidance with regards to calculating reversion and Tri-City has determined that based on this guidance, the reversion amount, if any, is not determinable and not probable to be collected by the State.

Tri-City classifies the unearned MHSA Revenue as MHSA Revenues Restricted for Future Period under the Deferred Inflow of Resources caption on the Statement of Net Position as of June 30, 2015 and 2014 in the amounts of $8,365,627 and $6,185,724, 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, 2015 and 2014:

	Balance Beginning of Year	Funding Received	Amounts Recognized as Non-Operating Revenue	Reclassification of Previously Unapproved Programs	Balance End of Year
June 30, 2015					
CSS	$ 4,040,912	$ 7,194,287	$ (6,023,214)	$ -	$ 5,211,985
PEI	1,286,489	1,798,572	(1,841,453)	-	1,243,608
INN	472,905	473,309	(472,905)	348,583	821,892
WET	278,219	-	(278,219)	239,813	239,813
CFTN	107,199	-	(932,199)	1,673,329	848,329
MHSA Revenues Restricted for Future Period	$ 6,185,724	$ 9,466,168	$ (9,547,990)	$ 2,261,725	$ 8,365,627
Unearned MHSA Revenues	$ 2,325,008	$ -	$ -	$ (2,261,725)	$ 63,283
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

NOTE #12 – RESTRICTED NET POSITION BY ENABLING LEGISLATION, FOR MHSA PROGRAMS

Restricted Net Position for MHSA Programs represents the amounts which are restricted due to enabling legislation related to MHSA Proposition 63. The following table further summarizes the net position restricted by enabling legislation as of June 30, 2015 and 2014 by specific MHSA Program Plans.

	2015	2014
Restricted Net Position for MHSA Programs		
Community Services and Supports	$ 3,770,798	$ 2,056,806
Prevention and Early Intervention	691,817	479,045
Innovation	518,232	633,437
Workforce, Education and Training	276,422	196,434
Capital Facilities and Technology Needs	916,978	321,718
Prudent Reserves	3,517,268	3,461,200
Total Restricted Net Position for MHSA Programs	$ 9,691,515	$ 7,148,640

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, 2015 and 2014.

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 2015. 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 renovations of a 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 provided by Pomona were 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 $147,183 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 occurred as necessary to carry out the purposes of the loan. The loan is secured by a Trust Deed on the property. The loan term is ten (10) years from the date of execution and is 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. During fiscal 2014-15 Tri-City received a reimbursement of costs in the amount of $57,167. At June 30, 2015, and 2014, the outstanding balance of the loan was $147,183, and $90,016, respectively.

New Building Purchase

On May 20, 2015, Tri-City's Governing Board authorized Tri-City staff to negotiate the purchase of real estate property. On June 10, 2015, Tri-City entered into an agreement to purchase the building located at 2001 N. Garey Avenue in Pomona in the amount of $1,425,000 and immediately opened escrow with a $100,000 deposit. Escrow closed upon completion of the purchase on July 14, 2015. Upon entering into the agreement in June of 2015, Tri-City had 30 calendar days to perform its due diligence during which time Tri-City was allowed to terminate the agreement for any or no reason. The building is to be occupied by MHSA program staff.

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 $11,642 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, 2014 the monthly rent was increased to $7,123. The rent expense for this facility at June 30, 2015 and 2014 was $85,097 and $83,442, respectively.

NOTE #14 – OPERATING LEASES, Continued

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.

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, 2015, there were a total of three leases with monthly payments ranging from $3,983 to $11,642 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 June 30,	Lease Payments
2016	$ 309,451
2017	318,843
2018	328,631
2019	338,815
2020	349,397
2021-2022	700,729
	$ 2,345,866

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 2015 and 2014 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, 2014 the lease was on a month to month basis. On June 1, 2014, Tri-City had entered into a one year master lease with a monthly rental payment of $5,315 however as of June 1, 2015 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 $45,184 and $48,762 at June 30, 2015 and 2014, respectively. This expense is reflected as an operating expense in “Client lodging, transportation, and supply expense.”

NOTE #14 – OPERATING LEASES, Continued

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. On July 1, 2015, Tri-City renewed its agreement for another year through June 30, 2016 with a monthly rental rate of $550 per month.

Equipment

Tri-City has entered into various leases for the rental of office equipment. The monthly payments range from $108 to $1,523 and the rental payments are classified as operating expenses in "facility and equipment operating costs." Rental payments for fiscal 2015 and 2014 were $23,766 and $23,766, respectively.

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

Years Ended June 30,	Lease Payments
2016	$ 55,174
2017	46,023
2018	28,765
2019	16,118
2020	5,684
	$ 151,764

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	$ 5,000
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
Automobile	$ 1,000,000	$ 1,000,000	$ 1,000
Property-Building	$ 5,959,727	$ 5,959,727	$ 1,000
Property-Computer	$ 1,769,208	$ 1,769,208	$ 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 it's MHSA programs including 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 2015 and $70,236 in 2014 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 – PRIOR PERIOD ADJUSTMENT

As a result of implementing GASB Statement No 68, and as further explained at Note #9B, Tri-City has restated the beginning total net position at July 1, 2014 to retroactively recognize Tri-City's proportionate share of the net pension liability as of July 1, 2014. The effect of this change, as of July 1, 2014, is a decrease of $2,982,137 to the total net position, and a corresponding increase of $3,705,490 to net pension liability and an increase of $723,353 to deferred outflows of resources.

	Previously Presented Balance at June 30, 2014	Restatement	Restated Balance at July 1, 2014
Net Position	$ 7,918,952	$ (2,982,137)	$ 4,936,815
Net Pension Liability	-	3,705,490	3,705,490
Deferred Outflows of Resources	-	723,353	723,353

NOTE #19 – SUBSEQUENT EVENTS

As more fully described at Note #13, on June 10, 2015, Tri-City entered into an agreement to purchase a building in the amount of $1,425,000 and immediately opened escrow which closed upon completion of the purchase on July 14, 2015.

In September of 2015, Tri-City entered in an agreement and opened escrow for the purchase of a property in the City of Claremont in the amount of $610,000. This property is being purchased for the purpose of providing housing for clients as part of Tri-City's housing programs.

REQUIRED SUPPLEMENTARY INFORMATION

TRI-CITY MENTAL HEALTH CENTER

REQUIRED SUPPLEMENTARY INFORMATION
FOR FISCAL YEAR ENDED JUNE 30, 2015

Schedule of Tri-City's Proportionate Share of the Net Pension Liability
Miscellaneous - Classic Pool
As of the fiscal year ending June 30:
Last Ten Years*

		2015
Proportion of the net pension liability		0.0395%
Proportionate share of the net pension liability	$	2,458,026
Covered - employee payroll	$	6,876,041
Proportionate share of the net pension liability as a percentage of covered-employee payroll		35.75%
The pension plans's fiduciary net position as a percentage of the total penion liability		79.82%

* Fiscal year 2015 was the first year in which GASB 68 was implemented, therefore only one year is shown. The amounts presented are for the period ending June 30, 2014, the measurement date.

TRI-CITY MENTAL HEALTH CENTER

REQUIRED SUPPLEMENTARY INFORMATION
FOR FISCAL YEAR ENDED JUNE 30, 2015

As of the fiscal year ending June 30:
Last Ten Years*

		2015
Proportion of the net pension liability		0.00004%
Proportionate share of the net pension liability	$	2,306
Covered - employee payroll	$	1,504,639
Proportionate share of the net pension liability as a percentage of covered-employee payroll		0.15%
The pension plan's fiduciary net position as a percentage of the total penion liability		79.82%

* Fiscal year 2015 was the first year in which GASB 68 was implemented, therefore only one year is shown. The amounts presented are for the period ending June 30, 2014, the measurement date.

TRI-CITY MENTAL HEALTH CENTER

REQUIRED SUPPLEMENTARY INFORMATION
FOR FISCAL YEAR ENDED JUNE 30, 2015

Schedule of Contributions
Miscellaneous Classic Pool
As of the fiscal year ending June 30:
Last Ten Years*

		2015
Actuarially determined contributions	$	596,691
Contributions in relation to the actuarially determined contribution		596,691
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	5,966,043
Contributions as a percentage of covered-employee payroll		10.00%

Schedule of Contributions
Miscellaneous PEPRA Pool
As of the fiscal year ending June 30:
Last Ten Years*

		2015
Actuarially determined contributions	$	165,855
Contributions in relation to the actuarially determined contribution		165,855
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	2,831,024
Contributions as a percentage of covered-employee payroll		5.86%

* - Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

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, 2015 and the related notes to the financial statements, which collectively comprise Tri-City's basic financial statements, and have issued our report thereon dated November 12, 2015. Our report included an emphasis of matter regarding Tri-City's adoption of Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, effective July 1, 2014.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 12, 2015