TRI-CITY MENTAL HEALTH AUTHORITY

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2021 AND 2020

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Independent Auditor's Report

To the Governing Board of
Tri-City Mental Health Authority
Claremont, California

Report on the Financial Statements
We have audited the accompanying financial statements of Tri-City Mental Health Authority (Tri-City), as of and for the years ended June 30, 2021 and 2020, 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, as of June 30, 2021 and 2020, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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, as listed in the table of contents, 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 a report dated December 10, 2021 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, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Tri-City's 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.

Eide Bailly LLP

Rancho Cucamonga, California
December 10, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

The following management's discussion and analysis of the Tri-City Mental Health Authority ("Tri-City"), a Municipal Joint Powers Authority ("JPA") financial statements present a narrative overview and analysis of Tri-City's financial activities for the fiscal years ended June 30, 2021, and 2020 along with comparative information for fiscal years ended 2020 and 2019.

BACKGROUND

General

Tri-City Mental Health Authority was formed on June 21, 1960 and established through a Joint Powers Authority Agreement between the Cities of Pomona, Claremont and La Verne pursuant to the provisions of the Joint Exercise of Powers Act, Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California, Section 6500, et seq. relating to the joint exercise of powers common to public agencies, and the provisions of the Bronzan-McCorquodale Act/Short-Doyle Act, Part 2, Section 5600, et seq., of the Welfare and Institutions Code (WIC) of the State of California, to deliver mental health services to the residents of the three Cities. This action was taken out of a desire on the part of officials from the three Cities to provide the highest quality services for local residents. For approximately sixty years, Tri-City has cared for and served local children, youth, adults and older adults.

Pursuant to the Joint Powers Authority Agreement, Tri-City is a public agency governed by a Governing Board ("Board) composed of seven members. The Governing Board has the powers common to public agencies as enumerated in the Joint Exercise of Powers Act, and the authority deemed necessary and required for the operation and maintenance of Tri-City to serve those individuals residing in the three Cities.

As the Mental Health Authority, Tri-City is limited to and responsible only for providing outpatient speciality mental health services to residents of the cities of LaVerne, Pomona, and Claremont. Tri-City is not a Mental Health Plan (MHP) and therefore not bound by the MHP provisions of Title 9 CCR. However, Tri-City is one of two entities that are not considered to be MHPs that receive Realignment Revenues from the State of California and also receive directly Mental Health Services Act (MHSA) funds which are used in its MHSA program, which is separate and apart from the MHSA program of Los Angeles County. Because Tri-City has not been reflected in waivers between the State of California and the federal government, namely Centers for Medicaid and Medicare Services (CMS), and to be consistent with 42 CFR 438.60, the State has required Tri-City to contract with Los Angeles County through a Legal Entity Agreement so that the State may pay State General Funds and Federal Financial Participation funds relating to Tri-City's Non-EPSDT (i.e. Adult and Expanded Medi-Cal) and EPSDT (Early and Periodic Screening, Diagnostic and Treatment) services to an MHP, in this case Los Angeles County, who then passes through those funds to Tri-City. This agreement provides Tri-City the mechanism to drawdown federal and state Medi-Cal funding, in particular EPSDT funding.

Since Tri-City's formation 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. Tri-City Mental Health Authority is continually developing its operations and system of care for the residents of the three cities. This includes the continuation of Tri-City's outpatient clinics and the implementation of any new programs approved through the Mental Health Service Act (MHSA).

Tri-City's outpatient clinics located in Pomona provided services to approximately 2,889 unduplicated clients during the past fiscal year, which include high intensity mental health services through Tri-City's Full Service Partnership (FSP) MHSA program. Through the efforts to provide a continuum of care and in order to meet the needs of Tri-City's residents, even during the current COVID-19 crisis, the clinical team continually implement new groups available to the community both at the outpatient clinics and at the Wellness Center and in the past increased the hours of clinic operations to include later appointment hours for children and their families. Currently Tri-City continues to offer a wide range of flexibilities including video and telephone appointments.

As mentioned above, in addition to the outpatient clinical operations, Tri-City has operations established through the Mental Health Services Act (MHSA). Under the MHSA Act, various programs were established within five plans which include: 1) the Community Services and Support (CSS) Plan; 2) the Prevention and Early Intervention (PEI) Plan; 3) the Workforce Education and Training (WET) Plan; 4) the Innovations (INN) Plan; and 5) the Capital Facilities and Technology (CFTN) Plan. All of these plans have been fully operational since their individual plan approvals and continue to be updated and approved annually through the stakeholder process including Governing Board approval.

In addition to ongoing CSS programs providing mental health services, over the past several years, Tri-City has implemented CSS housing projects under its approved CSS Housing Plan funded by State designated CSS funds and CSS funds approved by the MHSA annual updates. These projects include three apartment developments (owned by the developers), two in the City of Pomona and one in the City of La Verne, as well as the purchase of homes by Tri-City, one home in the City of Pomona and one in the City of Claremont. These projects provide low income housing to Tri-City clients that have mental illness and are either homeless or at risk of homelessness. In accordance with the MHSA CSS Housing Plan, all Tri-City residents of these projects are or will receive mental health support from Tri-City.

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 and State governments. MHSA funding can only be used for MHSA programs and can be leveraged (as the match) for Medi-Cal reimbursement for services provided through FSP and other MHSA programs and realignment is the only source of funds besides Medi-Cal reimbursements that can be used to provide Medi-Cal services at the outpatient clinics, as well as non Medi-Cal clinical services and operating costs.

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. As further discussed below in this document, State MHSA funds can fluctuate based on new events and economic pressures not currently known, however as a result of COVID-19 actual and estimated impacts have been identified and further discussed below.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

- *Cash flows from operating activities* include transactions and events reported as components of the operating income in the Statements of Revenues, Expenses, and Changes in Net Position.

- *Cash flows from non-capital financing activitie*s include proceeds from Realignment, funds received from the State of California for the implementation and provision of services as approved under the Mental Health Services Act, and contributions from member cities.

- *Cash flows from capital and related financing activities* include the borrowing and repayment (principal and interest) of capital-related debt and the acquisition and construction of capital assets.

- *Cash flows from investing activities* represent proceeds from the receipt of interest.

The following table shows the net position as of June 30, 2021, 2020 and 2019:

Statements of Net Position

	2021	2020	2019
Assets			
Current Assets	$ 40,898,818	$ 37,911,935	$ 37,848,529
Capital Assets, Net	7,045,153	7,246,110	7,278,515
Note Receivable	2,800,000	-	-
Other Assets	638,824	562,154	145,878
Total Assets	51,382,795	45,720,199	45,272,922
Deferred Outflows of Resources			
Deferred Outflows Related to Pensions	2,893,978	2,776,741	2,671,142
Total Deferred Outflows of Resources	2,893,978	2,776,741	2,671,142
Liabilities			
Current Liabilities	9,341,527	7,874,331	7,136,057
Noncurrent Liabilities (excluding Bankruptcy Liability and Net Pension Liability)	494,264	1,136,416	1,449,557
Net Pension Liability	6,325,906	5,462,528	4,658,577
Bankruptcy Liabilities	-	656,064	1,686,064
Total Liabilities	16,161,697	15,129,339	14,930,255
Deferred Inflows of Resources			
MHSA Revenues Restricted for Future Period	8,413,843	6,625,119	8,351,712
Deferred Inflows Related to Pensions	45,119	217,236	190,986
Total Deferred Inflows of Resources	8,458,962	6,842,355	8,542,698
Net Position			
Net Investment in Capital Assets	6,214,595	6,355,427	6,299,892
Restricted for MHSA Programs	19,082,210	16,204,681	15,119,523
Unrestricted	4,359,309	3,965,138	3,051,696
Total Net Position	$ 29,656,114	$ 26,525,246	$ 24,471,111

- **Total Assets** are comprised of cash, accounts receivable, capital assets and prepaid deposits.
  - *Comparison of June 30, 2021 to June 30, 2020*. At June 30, 2021, Tri-City reflected an increase in total assets of approximately $5.7 million. The most significant amounts attributing to the total increase in assets includes the increase in a note receivable related to an MHSA housing project of approximately $2.8 million and an increase in current assets of approximately $3.0 million. Total cash and investments at June 30, 2021 was approximately $34.9 million reflecting a net increase of approximately $3.8 million from the balance at June 30, 2020 of $31.1 million. The most significant reasons attributing to the overall increase in cash is due to delayed tax filings in the prior fiscal year which were received in the current year. The MHSA is funded through the imposition of a 1% State income tax on personal income in excess of $1 million and in response to the COVID-19 crisis, in March of 2020 the California Franchise Tax Board announced the postponed tax filing deadlines from April 15, 2020 to July 15, 2020.

  - *Comparison of June 30, 2020 to June 30, 2019*. At June 30, 2020, Tri-City reflected an increase in total assets of approximately $450 thousand. The most significant amounts attributing to the total increase in assets includes the increase in accounts receivable by approximately $900 thousand and an increase to prepaid deposits by approximately $416 thousand. These increases were offset by a decrease in total cash and restricted cash in the total approximate amount of $800 thousand. Total cash and investments at June 30, 2020 was approximately $31.1 million reflecting a decrease of approximately $800 thousand from the balance at June 30, 2019 of $31.9 million. The most significant reasons attributing to the overall decrease in cash includes the decrease experienced by Tri-City in MHSA and 1991 Realignment cash receipts as a direct result of the COVID-19 crisis. The MHSA is funded through the imposition of a 1% State income tax on personal income in excess of $1 million and in response to the COVID-19 crisis, in March of 2020 the California Franchise Tax Board announced the postponed tax filing deadlines from April 15, 2020 to July 15, 2020. In addition, 1991 realignment, which is partly funded by sales tax also experienced a decline. These decreases were offset by the collection of Medi-Cal (FFP and EPSDT) payments throughout the year resulting from increases in services, in addition to the receipt of approximately $800 thousand in interim cost report settlements from LA DMH relating to various prior years. Total net capital assets decreased by approximately $32 thousand representing purchases of approximately $447 thousand less depreciation of approximately $479 thousand. The most significant capital purchases that occurred during fiscal 2020 included the purchase of 6 new vehicles and replacement of computers.

- **Deferred Outflows of Resources**

  - *Comparison of June 30, 2021 to June 30, 2020.* Certain amounts attributing to Tri-City's proportionate share of the CalPERS Miscellaneous Cost Sharing Plan liability result in amounts that are deferred due to timing differences. These amounts include contributions paid to the plan by Tri-City subsequent to the measurement date of the net pension liability and are classified within the 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 would not be recognized as an outflow of resources (expense) until that time. Accordingly, Tri-City has classified the total amount of $2,893,978 as Deferred Outflows of Resources at June 30, 2021 which reflects an increase of approximately $117 thousand from the prior year. The increase is primarily due to the net difference between expected and actual earnings on pension plan investments and changes of assumptions (also refer to Note #9B).

  - *Comparison of June 30, 2020 to June 30, 2019.* Certain amounts attributing to Tri-City's proportionate share of the CalPERS Miscellaneous Cost Sharing Plan liability result in amounts that are deferred due to timing differences. These amounts include contributions paid to the plan by Tri-City subsequent to the measurement date of the net pension liability and are classified within the 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 would not be recognized as an outflow of resources (expense) until that time. Accordingly, Tri-City has classified the total amount of $2,776,741 as Deferred Outflows of Resources at June 30, 2020 which reflects an increase of approximately $106 thousand from the prior year. The decrease is primarily due to the net difference between expected and actual earnings on pension plan investments and changes of assumptions (also refer to Note #9B).

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

- *Comparison of June 30, 2021 to June 30, 2020*. Total liabilities increased by approximately $1 million from $15.1 million at June 30, 2020 to $16.1 million at June 30, 2021.

  This total net change of approximately $1 million is made up several changes which included increases to accrued payroll liabilities, and accrued vacation and sick leave. The most significant decrease was due to the payments made of approximately $656 thousand to pay off the remaining bankruptcy liabilities (as further explained at Note #7 to the financial statements). In addition, the net pension liability (as more fully described at Note #9B of the financial statements), experienced an increase of approximately $863 thousand in fiscal year 2021. Tri-City's proportionate share of the Plan's pooled net pension liability at June 30, 2021 is $6,325,906. The increase to this liability from fiscal 2020, primarily was as a result of net increases and decreases in the changes of assumptions, changes in employer's proportion, differences between projected and actual investment earnings, projected and actual experience, and differences between employer's contributions and proportionate share of contributions.

  The Unearned MHSA Revenues balance (reported under Noncurrent Liabilities) experienced a change from the prior year as a result approval of plans to utilize the Capital Facilities & Technology (CFTN) funds in fiscal year 2021-20. As noted at June 30, 2021 and at June 30, 2020, noncurrent unearned MHSA revenues were approximately $435 thousand and $276 thousand, respectively. The unearned MHSA revenue recorded in noncurrent liabilities at June 30, 2021 and 2020 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 2021 and 2020, as a result of the review of existing MHSA programs and updates, approximately $8.4 million and $6.6 million in MHSA Revenues Restricted for Future Period was identified as approved and available to be spent in fiscal 2022 and 2021, 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 $29 thousand due to the debt service payments made during the fiscal year and the City of Pomona HUD loan decreased by amounts forgiven by the City in accordance with the terms of the agreement.

  Lastly, the third largest liability in the amount of $5,599,629 for Estimated Third Party Payor Settlements increased by approximately $291 thousand from the prior year's amount of $5,308,377 as a result of noted increases in services provided during fiscal year 2020-21. As more fully described at Note #8, this liability represents a reserve (approximately 8%) of Medi-Cal revenues already received by Tri-City for services provided. Since the final cost reports for these related revenues have not yet been settled or audited by the State, they are subject to future audits. This liability increases each year as a percentage of each year's billings and would decrease upon Los Angeles County Department of Mental Health's (LAC DMH) final cost report settlement with the State.

- *Comparison of June 30, 2020 to June 30, 2019*. Total liabilities increased by approximately $199 thousand from $15.1 million at June 30, 2019 to $15.3 million at June 30, 2020.

  This total net change of approximately $199 thousand is made up several changes which included increases to accrued payroll liabilities, and accrued vacation and sick leave. The most significant decrease was due to the payments made of approximately $1 million toward the remaining bankruptcy liabilities (as further explained at Note #7 to the financial statements). In addition, the net pension liability (as more fully described at Note #9B of the financial statements), experienced an increase of approximately $804 thousand in fiscal year 2020. Tri-City's proportionate share of the Plan's pooled net pension liability at June 30, 2020 is $5,462,528. The increase to this liability from fiscal 2019, primarily was as a result of net increases and decreases in the changes of assumptions, changes in employer's proportion, differences between projected and actual investment earnings, projected and actual experience, and differences between employer's contributions and proportionate share of contributions.

The Unearned MHSA Revenues balance (reported under Noncurrent Liabilities) experienced a change from the prior year as a result approval of plans to utilize the Capital Facilities & Technology (CFTN) funds in fiscal year 2020-21. As noted at June 30, 2020 and at June 30, 2019, noncurrent unearned MHSA revenues were approximately $276 thousand and $500 thousand, respectively. The unearned MHSA revenue recorded in noncurrent liabilities at June 30, 2020 and 2019 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 2020 and 2019, as a result of the review of existing MHSA programs and updates, approximately $6.6 million and $8.4 million in MHSA Revenues Restricted for Future Period was identified as approved and available to be spent in fiscal 2021 and 2020, 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 $29 thousand due to the debt service payments made during the fiscal year and the City of Pomona HUD loan decreased by amounts forgiven by the City in accordance with the terms of the agreement.

Lastly, the third largest liability in the amount of $5,308,377 for Estimated Third Party Payor Settlements increased by approximately $304 thousand from the prior year's amount of $5,003,822 as a result of noted increases in services provided during fiscal year 2019-20. As more fully described at Note #8, this liability represents a reserve (approximately 8%) of Medi-Cal revenues already received by Tri-City for services provided. Since the final cost reports for these related revenues have not yet been settled or audited by the State, they are subject to future audits. This liability increases each year as a percentage of each year's billings and would decrease upon Los Angeles County Department of Mental Health's (LAC DMH) final cost report settlement with the State.

- **Deferred Inflows of Resources** is comprised of MHSA Revenues Restricted for Future Period and Deferred Inflows Related to Pensions. 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.

  - *Comparison of June 30, 2021 to June 30, 2020*. At June 30, 2021 and June 30, 2020 the amounts reported for MHSA Revenues Restricted for Future Period under this caption totaled the approximate amount of $8.4 million and $6.6 million, respectively. The increase of approximately $1.8 million was due to an overall increase of MHSA revenues (deferred for a future period) that are to be utilized during fiscal 2022. The MHSA is funded through the imposition of a 1% State income tax on personal income in excess of $1 million and during March of 2020, the California Franchise Tax Board announced the postponed tax filing deadlines from April 15, 2020 to July 15, 2020. The MHSA revenue restricted for future period recorded within this caption reflect the receipt of MHSA funds in fiscal 2021 and 2020 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 includes Deferred Inflows Related to Pensions. As noted previously, and as more fully described at Note #9B, certain differences between expected and actual experiences, changes of assumptions, and changes in proportion associated with the actuarially determined liability are deferred and classified within this caption titled Deferred Inflows of Resources. Accordingly, Tri-City has classified the net effect of these changes in the amount of $45,119 at June 30, 2021 and $217,236 at June 30, 2020 as Deferred Inflow of Resources, net of applicable amortization. The net decrease of approximately $172 thousand from fiscal 2020 to 2021 is primarily attributed to various actuarially determined amounts including changes in assumptions, and differences between expected and actual earnings on pension plan investments.

- *Comparison of June 30, 2020 to June 30, 2019*. At June 30, 2020 and June 30, 2019 the amounts reported for MHSA Revenues Restricted for Future Period under this caption totaled the approximate amount of $6.6 million and $8.4 million, respectively. The decrease of approximately $1.8 million was due to an overall decrease of MHSA revenues (deferred for a future period) that are to be utilized during fiscal 2021. As a direct result of the COVID-19 crisis, Tri-City experienced a decrease in the receipt of MHSA funds. The MHSA is funded through the imposition of a 1% State income tax on personal income in excess of $1 million and during March of 2020, the California Franchise Tax Board announced the postponed tax filing deadlines from April 15, 2020 to July 15, 2020. The MHSA revenue restricted for future period recorded within this caption reflect the receipt of MHSA funds in fiscal 2020 and 2019 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 includes Deferred Inflows Related to Pensions. As noted previously, and as more fully described at Note #9B, certain differences between expected and actual experiences, changes of assumptions, and changes in proportion associated with the actuarially determined liability are deferred and classified within this caption titled Deferred Inflows of Resources. Accordingly, Tri-City has classified the net effect of these changes in the amount of $217,236 at June 30, 2020 and $190,986 at June 30, 2019 as Deferred Inflow of Resources, net of applicable amortization. The net increase of approximately $26 thousand from fiscal 2019 to 2020 is primarily attributed to various actuarially determined amounts including changes in assumptions, and differences between expected and actual earnings on pension plan investments.

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

  - *At June 30, 2021*. Tri-City's net position at June 30, 2021 was approximately $29.7 million, which is the result of total assets of $51.4 million and total deferred outflow of resources of $2.9 million less total liabilities and deferred inflow of resources of $16.2 million and $8.5 million, respectively. Net position is comprised of Net Investment in Capital Assets of approximately $6.2 million (capital assets less the mortgage liability and the HUD Loan), Net Position Restricted for MHSA Programs of approximately $19.7 million, and Unrestricted Net Position of approximately $4 million. The decrease in Net Investment in Capital Assets of approximately $141 thousand was primarily due the purchase of vehicles and computer equipment offset by the annual depreciation. The increase of $2.9 million in Net Position Restricted for MHSA Programs as previously noted, is primarily due to an increase in MHSA funding recognized into revenue which was unspent as of the end of the fiscal year. The Unrestricted Net Position balance increased by approximately $394 thousand, primarily as a result of an increase in Medi-Cal revenue. Medi-Cal eligible units of services are reimbursable on a cost per unit basis and increased costs associated with additionally staffing partly attributed to the increase in Medi-Cal revenues in addition to an increase in services provided.

  - *At June 30, 2020*. Tri-City's net position at June 30, 2020 was approximately $26.5 million, which is the result of total assets of $45.7 million and total deferred outflow of resources of $2.8 million less total liabilities and deferred inflow of resources of $15.1 million and $6.8 million, respectively. Net position is comprised of Net Investment in Capital Assets of approximately $6.4 million (capital assets less the mortgage liability and the HUD Loan), Net Position Restricted for MHSA Programs of approximately $16.2 million, and Unrestricted Net Position of approximately $4 million. The increase in Net Investment in Capital Assets of approximately $56 thousand was primarily due the purchase of vehicles and computer equipment offset by the annual depreciation. The increase of $1.1 million in Net Position Restricted for MHSA Programs as previously noted, is primarily due to an increase in MHSA funding recognized into revenue which was unspent as of the end of the fiscal year. The Unrestricted Net Position balance increased by approximately $900 thousand, primarily as a result of an increase in Medi-Cal revenue. Medi-Cal eligible units of services are reimbursable on a cost per unit basis and increased costs associated with additionally staffing partly attributed to the increase in Medi-Cal revenues in addition to an increase in services provided. Additionally, as a direct result of the COVID-19 crisis, Tri-City experienced a decrease in 1991 Realignment revenue which was overall slightly offset by grant revenue (Measure H). Also, as previously mentioned, as a result of Tri-City's prior filing for bankruptcy in fiscal 2004 (as further explained at Note #7 to the financial statements), the total liabilities at June 30, 2020 include approximately $656 thousand in bankruptcy liabilities that remain outstanding.

The following table shows the change in net position during the fiscal years ended June 30, 2021, 2020, and 2019:

Statements of Revenues, Expenses and Changes in Net Position

	2021	2020	2019
Operating Revenues:			
Medi-Cal - Federal Financial Portion	$ 8,940,455	$ 7,971,864	$ 6,468,744
Medi-Cal - State EPSDT	1,933,454	1,933,454	1,551,847
Other Operating Income	371,992	175,862	204,952
Total Operating Revenue	11,245,901	10,081,180	8,225,543
Operating Expenses:			
Salaries, wages and benefits	20,186,648	18,714,663	16,177,693
Facility and equipment operating costs	1,957,187	1,944,282	1,609,948
Client lodging, transportation, and supply expense	1,888,764	1,705,795	897,076
Depreciation	574,026	479,571	429,994
Other operating expense	1,975,827	1,898,602	1,471,470
Total Operating Expenses	26,582,452	24,742,913	20,586,181
Operating Loss	(15,336,551)	(14,661,733)	(12,360,638)
Non Operating Revenues (Expenses), Net			
Realignment	4,095,068	3,776,200	4,407,019
MHSA Funding	13,523,788	12,130,482	11,235,575
Other Grants	131,778	-	-
HMIOT Grant	-	-	100,000
Measure H	490,792	152,258	-
Contributions from member cities	70,236	70,236	70,236
Interest income	156,875	560,171	589,014
Interest expense	(39,965)	(41,592)	(42,922)
Gain on sale of capital assets	9,410	9,239	-
Total Non Operating Revenues (Expenses)	18,437,982	16,656,994	16,358,922
Income Before Special Items	3,101,431	1,995,261	3,998,284
Special Items:			
City of Pomona HUD Loan forgivness of debt	29,437	58,874	-
Total Special Items	29,437	58,874	-
Change in Net Position	3,130,868	2,054,135	3,998,284
Net Position, Beginning of Year	26,525,246	24,471,111	20,472,827
Net Position, End of Year	$ 29,656,114	$ 26,525,246	$ 24,471,111

Fiscal Year 2021 to 2020 Comparisons

- **Operating Revenues** — Operating revenues increased approximately $1.2 million. This increase is primarily due to a net increase in Medi-Cal revenues, net of provision for doubtful accounts. Medi-Cal eligible units of services are reimbursable on a cost per unit basis and increased costs associated with additional staffing partly attributed to the increase in Medi-Cal revenues in addition to an increase in services provided.

- **Operating Expenses** — Total operating expenses increased by approximately $1.8 million (7.4%) in fiscal 2021 as compared to fiscal 2020. This increase was mainly due to an increase in salaries and benefits costs of approximately $1.5 million. Along with normal annual wage increases, the increase of salaries and benefits is primarily due to an increase of active employees of approximately 4% resulting in an increase of approximately 4% of hours worked.

  Operating expenses also include Facilities and Equipment, Client Lodging and Transportation, and Other Operating Expenses with increases in each of these in the amounts of $13 thousand, $183 thousand and $77 thousand, respectively. Client lodging costs include costs associated with an agreement with the City of Pomona for the use of the City's year-round emergency shelter facility in the amount of $396 thousand. As a direct result of the COVID-19 crisis, an increase in client lodging was experienced in order to provide temporary housing for clients. Additionally, the increased costs are also due to the Measure H Grant program which also provides housing. Other Operating Expenses include expenses such as security, professional fees, banking fees and other miscellaneous operating expenses. The noted increase was primarily due to additional hours of security being provided at one of the buildings.

- **Operating Loss** — Operating losses do not include non-operating revenues such as Realignment funding or MHSA funding, which are two of Tri-City's major sources of supplemental funding (see Note #2B for further discussion). These funds are included in non-operating revenues as discussed below. Therefore, the financial statement presentation reflects operating losses of approximately $15.3 million in fiscal 2021 compared to $14.7 million in 2020. The increase in operating losses resulted primarily from higher operating expenses which included an increase of approximately $1.5 million in salaries and benefits expense.

- **Non-Operating Revenues (Expenses), Net** — Non-operating revenues (expenses) were approximately $18.4 million in fiscal 2021 and $16.6 million in fiscal 2020, an increase of approximately $1.8 million. This change is mainly due to the increase in MHSA funds recognized during fiscal 2020-21 by approximately $1.4 million and by the increase in 1991 Realignment by approximately $319 thousand. As noted previously, MHSA Funds are recognized in the fiscal year in which an approved plan has been adopted through the required MHSA Update process. The 2020-21 MHSA update reflected a total increase in required MHSA funds primarily as a result of projected increased costs within the MHSA Approved Plans. Additionally, an increase in 1991 realignment was experienced through a combination of state vehicle license fees and sales tax.

- **Changes in Net Position —** Tri-City's net position as of June 30, 2021 increased by approximately $1 million compared to fiscal year 2020. The total change in net position of $3.1 million for fiscal 2021 relates to operating revenues and non-operating revenues exceeding operating expenses. A net total increase to net position was experienced, the net change in position increased as compared to the prior year, primarily as a result of the increased MHSA and Medi-Cal revenues recognized. Additionally, as noted previously, 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 recording of Tri-City's proportionate share of the net pension liability determined through the preparation of an actuarial valuation by CalPERS. Recognition of $2,160,072 of pension expense resulted from timing differences related to contributions and changes in proportionate shares which are components in the change to the net pension liability.

Fiscal Year 2020 to 2019 Comparisons

- **Operating Revenues** — Operating revenues increased approximately $1.9 million. This increase is primarily due to a net increase in Medi-Cal revenues, net of provision for doubtful accounts. Medi-Cal eligible units of services are reimbursable on a cost per unit basis and increased costs associated with additional staffing partly attributed to the increase in Medi-Cal revenues in addition to an increase in services provided.

- **Operating Expenses** — Total operating expenses increased by approximately $4.2 million (20%) in fiscal 2020 as compared to fiscal 2019. This increase was mainly due to an increase in salaries and benefits costs of approximately $2.5 million. Along with normal annual wage increases, the increase of salaries and benefits is primarily due to an increase of active employees of approximately 7% resulting in an increase of approximately 7% of hours worked. Additionally, in fiscal year 2018-19, Tri-City's Governing Board adopted Resolution No. 465 which authorized an updated compensation package which allowed for retention and sign-on bonuses to be paid in the amount of approximately $120 thousand dollars.

  Operating expenses also include Facilities and Equipment, Client Lodging and Transportation, and Other Operating Expenses with increases in each of these in the amounts of $334 thousand, $809 thousand and $427 thousand, respectively. The increase in client lodging is primarily due to an agreement with the City of Pomona for the use of the City's year-round emergency shelter facility in the amount of $396 thousand. As a direct result of the COVID-19 crisis, an increase in client lodging was also experienced in order to provide temporary housing for clients. Other Operating Expenses include expenses such as security, professional fees, banking fees and other miscellaneous operating expenses. The noted increase was primarily due to additional hours of security being provided at one of the buildings.

- **Operating Loss** — Operating losses do not include non-operating revenues such as Realignment funding or MHSA funding, which are two of Tri-City's major sources of supplemental funding (see Note #2B for further discussion). These funds are included in non-operating revenues as discussed below. Therefore, the financial statement presentation reflects operating losses of approximately $14.7 million in fiscal 2020 compared to $12.4 million in 2019. The increase in operating losses resulted primarily from higher operating expenses which included an increase of approximately $2.5 million in salaries and benefits expense.

- **Non-Operating Revenues (Expenses), Net** — Non-operating revenues (expenses) were approximately $16.6 million in fiscal 2020 and $16.3 million in fiscal 2019, an increase of approximately $300 thousand. This change is mainly due to the increase in MHSA funds recognized during fiscal 2019-20 by approximately $894 thousand and offset by the decrease in 1991 Realignment by approximately $600 thousand. As noted previously, MHSA Funds are recognized in the fiscal year in which an approved plan has been adopted through the required MHSA Update process. The 2019-20 MHSA update reflected a total increase in required MHSA funds primarily as a result of projected increased costs within the MHSA Approved Plans. Additionally, a decrease in 1991 realignment was experienced as a direct impact during the current COVID-19 crisis as 1991 realignment is funded through a combination of state vehicle license fees and sales tax.

- **Changes in Net Position —** Tri-City's net position as of June 30, 2020 decreased by approximately $1.9 million compared to fiscal year 2019. The total change in net position of $2.0 million for fiscal 2020 relates to operating revenues and non-operating revenues exceeding operating expenses. Although a net total increase to net position was experienced, the net change in position decreased as compared to the prior year, primarily as a result of the impact experienced by Tri-City during the current COVID-19 crisis. Increased expenses experienced by Tri-City have included temporary housing for clients, and the purchase of additional equipment for telecommuting. Additionally, as noted previously, 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 recording of Tri-City's proportionate share of the net pension liability determined through the preparation of an actuarial valuation by CalPERS. Recognition of $2,053,110 of pension expense resulted from timing differences related to contributions and changes in proportionate shares which are components in the change to the net pension liability.

Capital Asset and Debt Administration

Capital Assets
(Net of Depreciation)

	2021	2020	2019
Land	$ 2,520,749	$ 2,520,749	$ 2,520,749
Buildings and improvement	3,915,145	4,225,258	4,559,199
Leasehold improvements	4,330	8,990	13,650
Furniture and equipment	604,929	491,113	184,917
Total	$ 7,045,153	$ 7,246,110	$ 7,278,515

Tri-City's investment in capital assets as of June 30, 2021 and June 30, 2020 totaled approximately $7.0 million and $7.2 million, respectively. This investment in capital assets includes land, buildings and improvements, leasehold improvements, and furniture and equipment. The most significant changes that occurred in fiscal 2021 included the purchase of new vehicles and IT infrastructure and in fiscal 2020 included the purchase of 6 new vehicles and replacement of computers. Depreciation expense for year ending June 30, 2021 and June 30, 2020 was approximately $574 thousand and $480 thousand, respectively. Additional information on Tri-City's capital assets can be found in Note #6 to the financial statements.

Noncurrent Liabilities

	2021	2020	2019
Mortgage note payable (net of current portion)	$ -	$ 771,686	$ 802,374
City of Pomona HUD Loan	58,872	88,309	147,183
Bankruptcy liabilities	-	656,064	1,686,064
Net pension liability	6,325,906	5,462,528	4,658,577
Unearned MHSA revenues	435,392	276,421	500,000
Total	$ 6,820,170	$ 7,255,008	$ 7,794,198

Tri-City's noncurrent liabilities totaled $6.8 million at June 30, 2021 and $7.3 million at June 30, 2020. Noncurrent liabilities include the Mortgage for the location at 2008 N. Garey Ave, in the City of Pomona, the remaining bankruptcy liabilities for a former bankruptcy filing (further explained at Note #7 to the financial statements), the Net Pension Liability (further explained at Note #9B to the financial statements) and the Unearned MHSA Revenues (further explained at Note #2M and Note #11 to the financial statements).

The most significant events during the fiscal years ending June 30, 2021 and June 2020 included the following:

<u>2021</u>

- As more fully described at Note #10, the mortgage note payable has a balloon payment for the remaining balance due in June 2022. As a result, the entire remaining balance on the note of $772 thousand, as of June 30 2021, has been classified as a current liability which explains the decrease in noncurrent liabilities.
- As further explained at Note #13, the HUD loan is a forgivable loan and during fiscal year 2021, approximately $29 thousand was forgiven by the City of Pomona reducing the balance to approximately $59 thousand.
- Tri-City was able to pay off the remaining bankruptcy liability of approximately $656 thousand to Class 3 and Class 4 bankruptcy claimants as a result of available funding from Tri-City's outpatient clinic operations. As such, no remaining bankruptcy related liabilities exist as of June, 30, 2021. Refer to Note #7 to the financial statements for further details.
- Based on the CalPERS actuarial valuation, the net pension liability increased by approximately $863 thousand. Refer to Note #9B to the financial statements for further details.
- As further described at Note #2M, when MHSA funds are received they do not yet meet eligibility requirements and as such, are classified as Unearned Revenues on the Statement of Net Position as Noncurrent Liabilities until they are approved for programming. The net increase of approximately $159 thousand in Unearned MHSA Revenues, represents funds received during fiscal year 2021 that have not yet been approved for programming.

<u>2020</u>

- As further explained at Note #13, the HUD loan is a forgivable loan and during fiscal year 2020, approximately $59 thousand was forgiven by the City of Pomona reducing the balance to approximately $88 thousand.
- Tri-City was able to pay down approximately $1.0 million to Class 3 and Class 4 bankruptcy claimants as a result of available funding from Tri-City's outpatient clinic operations.
- Based on the CalPERS actuarial valuation, the net pension liability increased by approximately $803 thousand. Refer to Note #9B to the financial statements for further details.
- During fiscal 2020 and as a result of identified capital improvements projects within the MHSA Capital Facilities and Technology (CFTN) plan, a plan was approved and previously unearned MHSA revenue was identified as approved and made available to be spent beginning in fiscal year 2020. Amounts approved were then recognized and the remaining Noncurrent Unearned MHSA revenues available are noted to be $276 thousand. Additional information regarding MHSA revenues can be found at Note #11 to the financial statements.

Economic Factors

As well known, the COVID-19 pandemic that began in 2020 immediately made a financial impact on Federal, State and Local economies. While Tri-City experienced a direct and immediate impact, the full or long-term effects are still unknown. Tri-City has three significant sources of revenue (MHSA, 1991 Realignment and Medi-Cal) and the impact was experienced in two of these three sources.

MHSA - As described earlier in this document, the postponing of tax return filing deadlines from April to July 2020, meant that a delay in MHSA funds would be experienced. Beginning with the March 2020 MHSA monthly remittance, Tri-City did experience decreases in the amounts collected. Subsequent to the fiscal year end and after the July 15, 2020 tax filing deadline, Tri-City did begin experiencing increases in the MHSA monthly remittances. The California Behavioral Directors Association (CBHDA) provides continual information to county behavioral health departments that includes updates on legislation, the State budget and projections of behavioral health revenue sources. According to the latest projections, fiscal year 2021-22 is expected to experience an increase in MHSA cash flows as compared to the amounts received in fiscal year 2019-20 of approximately 19%. This increase is primarily due to an expected significant annual adjustment specifically from the 2019 and 2020 tax filings and due to any growth or true-ups. However, the impact of the 2020 COVID-19 crisis, is also expected to result in significant decreases in MHSA cash flows in fiscal year 2022-23 of approximately 22% as compared to fiscal year 2019-20. While Tri-City has not had to access MHSA prudent reserves to date, Tri-City will continue to closely monitor the needs of Agency.

1991 Realignment - As mentioned above, CBHDA has provided updated information and estimates for 1991 Realignment taking into consideration actual and projected impacts of COVID-19. Tri-City's third largest source of revenue (1991 realignment) is funded through a combination of vehicle license fees and sales tax. Absent change to legislation, Tri-City is guaranteed a base amount of 1991 realignment annually, however any growth is not guaranteed. During fiscal year 2020-21, Tri-City did receive its guaranteed based along with an additional $319 thousand in growth. According to CBHDA and consistent with the Governor's budget, Tri-City expects to receive a base of approximately $3.6 million annually, however will not expect to see any growth for the next few years.

Other Historical Factors

1991 Realignment funding for county mental health programs was mentioned in the Governor's 2019-20 Budget Summary relating to In-Home Supportive Services. As previously identified in the California's State Governor's May Budget Revise for 2017-18, In-Home Supportive Services (IHSS) was to be realigned back to counties. This realignment of costs would have meant that Tri-City would lose revenues previously received from the Vehicle License Fee Growth Fund. However, during fiscal 2018 the California Behavioral Health Directors Association (CBHDA) successfully advocated that Tri-City and Berkeley be exempted from these changes to mental health services funding. Specifically, the provision of IHSS is not required for Berkeley and Tri-City as they are Mental Health Authorities and not Mental Health Plans. Therefore Tri-City continues to not be impacted by these changes.

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. Since then individuals 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 were to be reimbursed at 100% through Federal Financial Participation (FFP) for the first three calendar years (2014 thru 2016). As of January 1, 2017, the reimbursement was reduced to 95%, then to

94% as of January 1, 2018, and to 93% as of January 1, 2019. Beginning January 1, 2020 and thereafter, the rate was reduced to 90%. In order to ensure proper reimbursement, Tri-City's contract with LA DMH includes language regarding MCE and Tri-City's authority to bill for such services through LA DMH.

During fiscal year 2015-16 new legislation, Assembly Bill 1618, was passed in California for the purpose of funding a new program titled "No Place Like Home" and would potentially redirect 7% of the annual MHSA tax revenue thereby decreasing MHSA funds that will be allocated and received by California counties and Tri-City in the future. At the November 6, 2018 statewide general election the No Place Like Home Act of 2018 was approved by the voters. MHSA funding projections included above, already take into account the 7% redirection in MHSA funding.

Liquidity and The Former Bankruptcy

At June 30, 2021, Tri-City had approximately $34.9 million in cash. Of this amount, approximately $26.6 million is cash that is immediately available but restricted only for the implementation and provision of services under approved MHSA programs, $8.3 million is cash available for Tri-City's outpatient clinic operations and of these amounts approximately $435 thousand (which is 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.

With regard to the former filing of the bankruptcy, on April 9, 2009, Tri-City made its first payment to Class 2 Unsecured creditors for their allowed claims. These claims were paid in full by June 2013. In May 2013, the first claim payment was made on the allowed Unsecured Class 3 California Department of Mental Health (CAL DMH, now the Department of Health Care Services or DHCS)) claims and Unsecured Class 4 Los Angeles County Department of Mental Health (LAC DMH) claims representing 4% of each Class' allowed claims. During Fiscal 2020 and 2019 Tri-City made additional payments to Class 3 and Class 4 totaling approximately $1.0 million and $2.0 million, respectively. During fiscal year 2021 Tri-City made final payments to LAC DMH and DHCS completely paying off the remaining bankruptcy liabilities. As of June 30, 2021, Tri-City has made payments totaling $10.9 million to Class 3 and Class 4 Unsecured creditors representing 100% of each Class' 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 Authority, 1717 N. Indian Hill Boulevard, #B, Claremont, California 91711.

TRI-CITY MENTAL HEALTH AUTHORITY

STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Current Assets:		
Cash and investments *(Note #4)*	$ 8,264,029	$ 7,024,393
Restricted cash and investments for MHSA programs *(Note #4)*	26,634,510	24,107,422
Accounts receivable, net of allowance for uncollectible accounts of $482,113 and $543,736 at June 30, 2021 and 2020, respectively *(Note #5A)*	6,000,279	6,780,120
Total Current Assets	40,898,818	37,911,935
Noncurrent Assets:		
Land	2,520,749	2,520,749
Capital assets being depreciated, net of accumulated depreciation *(Note #6)*	4,524,404	4,725,361
Note Receivable *(Note #5B)*	2,800,000	-
Prepaid Deposits *(Note #2F)*	638,824	562,154
Total Noncurrent Assets	10,483,977	7,808,264
Total Assets	51,382,795	45,720,199
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pensions *(Note #9B)*	2,893,978	2,776,741
LIABILITIES		
Current Liabilities:		
Accounts payable	555,957	423,892
Accrued payroll	702,478	641,586
Accrued vacation and sick leave	1,711,777	1,469,788
Estimated third party payor settlements *(Note #8)*	5,599,629	5,308,377
Current portion of mortgage note payable *(Note #10)*	771,686	30,688
Total Current Liabilities	9,341,527	7,874,331
Noncurrent Liabilities:		
Mortgage note payable (net of current portion) *(Note #10)*	-	771,686
City of Pomona HUD Loan (*Note #13*)	58,872	88,309
Bankruptcy liabilities *(Note #7)*	-	656,064
Net pension liability (*Note #9B*)	6,325,906	5,462,528
Unearned MHSA revenues *(Note #11)*	435,392	276,421
Total Noncurrent Liabilities	6,820,170	7,255,008
Total Liabilities	16,161,697	15,129,339
DEFERRED INFLOWS OF RESOURCES:		
MHSA revenues restricted for future period *(Note #11)*	8,413,843	6,625,119
Deferred inflows related to pensions *(Note #9B)*	45,119	217,236
Total Deferred Inflows of Resources	8,458,962	6,842,355
NET POSITION		
Net investment in capital assets	6,214,595	6,355,427
Restricted for MHSA programs *(Note #12)*	19,082,210	16,204,681
Unrestricted	4,359,309	3,965,138
Total Net Position	$ 29,656,114	$ 26,525,246

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

TRI-CITY MENTAL HEALTH AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Operating Revenues:		
Medi-Cal, net of provision for disallowances and bad debts	$ 10,873,909	$ 9,905,318
Medicare	5,761	5,795
Contracts	20,000	20,986
Rental income	127,429	115,042
Patient fees and insurance	1,662	2,415
Other income	217,140	31,624
Total Operating Revenues	11,245,901	10,081,180
Operating Expenses:		
Salaries, wages, and benefits	20,186,648	18,714,663
Facility and equipment operating costs	1,957,187	1,944,282
Client lodging, transportation, and supply expense	1,888,764	1,705,795
Depreciation	574,026	479,571
Other operating expense	1,975,827	1,898,602
Total Operating Expenses	26,582,452	24,742,913
Operating Income (Loss)	(15,336,551)	(14,661,733)
Non-Operating Revenues (Expenses):		
Realignment	4,095,068	3,776,200
MHSA funding	13,523,788	12,130,482
Measure H	490,792	152,258
Other Grants	131,778	-
Contributions from member cities	70,236	70,236
Interest income	156,875	560,171
Interest expense	(39,965)	(41,592)
Gain on sale of capital assets	9,410	9,239
Total Non-Operating Revenues (Expenses)	18,437,982	16,656,994
Income before Special Items	3,101,431	1,995,261
Special Item:		
City of Pomona HUD Loan (Note #13) forgivness of debt	29,437	58,874
Total Special Items	29,437	58,874
Change in Net Position	3,130,868	2,054,135
Net Position at Beginning of Year	26,525,246	24,471,111
Net Position at End of Year	$ 29,656,114	$ 26,525,246

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

TRI-CITY MENTAL HEALTH AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 12,316,994	$ 9,521,570
Payments to suppliers and contractors	(5,766,383)	(6,020,373)
Payments to employees for salaries and benefits	(19,309,743)	(17,502,546)
Payments on bankruptcy unsecured claims *(Note #7)*	(656,064)	(1,030,000)
Net Cash Used by Operating Activities	(13,415,196)	(15,031,349)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funding from Mental Health Services Act	15,471,483	10,180,310
Realignment	4,095,068	3,776,200
Contributions from member cities	70,236	70,236
Measure H	622,570	152,258
Net Cash Provided by Noncapital Financing Activities	20,259,357	14,179,004
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Notes Receivable	(2,800,000)	-
Purchase of capital assets	(373,069)	(447,166)
Principal paid on capital debt	(30,688)	(29,066)
Interest paid on capital debt	(39,965)	(41,592)
Proceeds on sale of capital assets	9,410	9,239
Net Cash Used by Capital and Related Financing Activities	(3,234,312)	(508,585)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	156,875	560,171
Net Cash Provided by Investing Activities	156,875	560,171
Net Increase (Decrease) in Cash and Cash Equivalents	3,766,724	(800,759)
Cash and Cash Equivalents at Beginning of Year	31,131,815	31,932,574
Cash and Cash Equivalents at End of Year	$ 34,898,539	$ 31,131,815
Reconciliation of Cash to Statement of Net Position:		
Cash and Investments	8,264,029	7,024,393
Restricted cash and Investments	26,634,510	24,107,422
Total cash and Investments	$ 34,898,539	$ 31,131,815

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

TRI-CITY MENTAL HEALTH AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Reconciliation of Operating Income (Loss) from Operations to Net Cash Used by Operating Activities:		
Operating Income (Loss)	$ (15,336,551)	$ (14,661,733)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:		
Depreciation	574,026	479,571
Pension expense	574,024	724,602
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net of allowance	779,841	(864,165)
(Increase) decrease in deposits	(76,670)	(416,276)
Increase (decrease) in accounts payable	132,065	(55,418)
Increase in accrued payroll liabilities	60,892	165,890
Increase in accrued leave	241,989	321,625
Increase in estimate for third party payor settlements	291,252	304,555
(Decrease) in bankruptcy liabilities	(656,064)	(1,030,000)
Net Cash Used by Operating Activities	$ (13,415,196)	$ (15,031,349)

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

NOTE #1 – DESCRIPTION OF REPORTING ENTITY

Tri-City Mental Health Authority (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 authorized 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 Statements of Net Position, Statements of Revenues, Expenses, and Change in Net Position, and the Statements of Cash Flows.

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

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

C. Bankruptcy Reporting

As more fully disclosed at Note #7, Tri-City filed a petition under Chapter 9 of the Bankruptcy Code in February of 2004. 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.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash and Cash Equivalents

For the purpose of the Statements of Cash Flows, Tri-City considers cash and cash equivalents as short-term highly liquid investments that are both readily convertible to known amounts of cash. At June 30, 2021 and 2020, 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 and contributed assets (if any) are recorded at acquisition value. 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. Prepaid Deposits

Prepaid deposits include prepaid expense, security, rental and utility deposits that have been paid to third parties. At June 30, 2021 and 2020, Tri-City had prepaid deposits outstanding in the amounts of $638,824 and $562,154, respectively.

G. Compensated Absences and Sick Leave

Full-time 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. 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.

Part-time employees shall accrue sick leave at a rate of 1 hour for every 30 hours worked up to 24 hours per a 12-month period. Unused accrued sick leave of part-time employees may not be cashed out upon termination and therefore is not recognized as a liability by Tri-City.

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.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Operating Revenues and Expenses

Tri-City's Statements of Revenues, Expenses, and Changes in Net Position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing mental health care services, Tri-City's principal activity. 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.

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 Early and Periodic Screening, Diagnostic and Treatment (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 does 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 Statements of Revenues, Expenses and Changes in Net Position when eligibility requirements are met, including time restriction requirements. The MHSA funds received for programs not yet meeting these eligibility requirements, are recorded as Unearned Revenues on the Statements of Net Position as Noncurrent Liabilities (amounts unapproved by a plan) and as MHSA Revenues Restricted for Future Period under Deferred Inflow of Resources (amounts approved for the beginning of the next fiscal year).

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2021 and 2020, 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).*

P. Net Position

Net position of Tri-City is classified in three components. Net investment in capital assets consists 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 the remaining net position that does not meet the definition of net investment in capital assets or restricted. The Statements of Net Position report $19,082,210 and $16,204,681 of restricted net position, at June 30, 2021 and June 30, 2020, respectively, which include MHSA funds that are restricted for use in MHSA programs. Net Investment in Capital Assets of $6,214,595 and $6,355,427 are equal to Tri-City's capital assets at June 30, 2021 and June 30, 2020 (Note #6), respectively, net of the related mortgage debt (Note #10) and the HUD Loan (Note #13). The remaining Unrestricted Net Position at June 30, 2021 and June 30, 2020 of $4,359,309 and $3,965,138, respectively, is the primary result of recognizing the long-term Net Pension Liability (as more fully disclosed at Note #9B) and the former recognition of bankruptcy related liabilities (as more fully disclosed at Note #7). The unrestricted net position is available for the general operations of Tri-City.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Q. Deferred Outflows/Inflows of Resources

In addition to assets reported on the Statements of Net Position, Tri-City will sometimes report a separate section for deferred outflows of resources. This separate financial statement caption represents a consumption of net position that applies to a future period and so, will not be recognized as an outflow of resources (expenditure) until then. At June 30, 2021 and June 30, 2020 Tri-City reported $2,893,978 and $2,776,741, respectively in deferred outflows of resources as further explained at Note #9B.

In addition to liabilities reported on the Statements of Net Position, Tri-City will sometimes report a separate section for deferred inflows of resources. This separate financial statement caption represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Tri-City 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 $45,119 and $217,236, at June 30, 2021 and 2020 respectively in deferred inflows of resources 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.

T. Fair Value Measurement

Tri-City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE #3 – NEW ACCOUNTING PRONOUNCEMENTS

Effective In Current Fiscal Year

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is effective for periods beginning after December 15, 2019. Tri-City has determined that there is no material effect to the Financial Statements.

GASB Statement No. 90 – In November 2016, GASB issued Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and 61.* The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement is effective for periods beginning after December 15, 2019. Tri-City has determined that there is no material effect to the Financial Statements.

Effective in Future Years

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for periods beginning after June 15, 2021. Tri-City has not determined the effect of this Statement.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement is effective for periods beginning after December 15, 2020. Tri-City has not determined the effect of this Statement.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement is effective for periods beginning after December 15, 2021. Tri-City has not determined the effect of this Statement.

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement is effective for periods beginning after June 15, 2021. Tri-City has not determined the effect of this Statement.

NOTE #3 – NEW PRONOUNCEMENTS, Continued

GASB Statement No. 93 – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR).* The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. This Statement is effective for periods beginning after June 15, 2021. Tri-City has not determined the effect of this Statement.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment.* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). This Statement is effective for periods beginning after June 15, 2022. Tri-City has not determined the effect of this Statement.

GASB Statement No. 96– In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The Statement is effective for reporting periods beginning after June 15, 2022. Tri-City has not determined the effect of this Statement.

GASB Statement No. 97– In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statement No.14 and No.84 and A Supersession of GASB Statement No.32*. The objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Statement is effective for reporting periods beginning after June 15, 2021 for requirements that are related to the accounting and financial reporting for Section 457 plans. The remaining sections are effective immediately. Tri-City has not determined the effect of this Statement.

NOTE #4 – CASH AND INVESTMENTS

As of June 30, 2021 and 2020, cash and investments in the Statements of Net Position consisted of the following:

	2021	2020
Cash on hand	$ 2,030	$ 2,030
Deposits with financial institutions	7,958,440	4,422,037
Deposit with Local Agency Investment Fund (LAIF)	26,938,069	26,707,748
Total Cash and Investments	$ 34,898,539	$ 31,131,815

Investments

Tri-City is authorized under California Government Code to make direct investments. Tri-City has adopted an investment policy that more restrictive and is limited to the following investments types:

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
Negotiable Certificates of Deposit	5 years	20%	$250,000
Local Agency Investment Fund (LAIF)	N/A	None	$75,000,000 per account

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As noted above, as of June 30, 2021 and 2020, all of Tri-City's investments are held in LAIF. The total balance of investments in LAIF is liquid and available for withdrawal at any time.

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, 2021 and 2020, $26,938,069 and $26,707,748, 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, 2021 and 2020, 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 $8,171,664 and $4,463,208, 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. The total balance in the LAIF is available for withdrawal. The California Local Agency Investment Fund is not insured or collateralized.

Restricted Cash and Investments

Cash and investments reflected on the Statements of Net Position as restricted was $26,634,510 and $24,107,422 at June 30, 2021 and 2020, 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 Statements of Net Position which include MHSA current operating liabilities will be funded through the MHSA restricted cash balance and collection of MHSA Medi-Cal receivables.

NOTE #4 – CASH AND INVESTMENTS, Continued

Fair Value Measurements

Tri-City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2021 and 2020, Tri-City held no individual investments. All funds are invested in LAIF.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Tri-City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Deposits and withdrawals are made on the basis of $1 and not fair value. Accordingly, Tri-City's investments in LAIF at June 30, 2021 and June 30, 2020 are uncategorized inputs not defined as a Level 1, Level 2, or Level 3 input.

NOTE #5 – RECEIVABLES

Accounts receivable at June 30, 2021 and 2020, consisted of the following:

	2021	2020
Accounts Receivable:		
Medi-Cal	$ 5,617,258	$ 6,359,697
Medicare	1,844	283
Realignment	609,225	609,225
Grants and Contracts	232,071	257,202
Interest & Other Receivables	21,994	97,449
Total Accounts Receivable	$ 6,482,392	$ 7,323,856
Less: Allowance for Doubtful Accounts	(482,113)	(543,736)
Accounts Receivable, Net	$ 6,000,279	$ 6,780,120

A - Medi-Cal Receivables

In accordance with Tri-City's original contracts 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 were to 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 withholding was eliminated in the contract with LA DMH. At June 30, 2021 and 2020, Medi-Cal accounts receivable included approximately zero and $590 thousand, 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 year 2013-14.

The allowance for doubtful accounts is estimated based on withholding percentages used by LAC DMH, and will be adjusted upon settlement of the cost reports. The provision expensed in fiscal 2021 and 2020 for doubtful accounts was approximately $230 thousand and $461 thousand, respectively.

B - Note Receivable

In March of 2021 Resolution #578 approved a Loan Agreement secured by a deed of trust on the property, a Regulatory Agreement, and Supportive Services Agreement with West Mission Housing Partners, LP for the development, construction, financing and operation of 10 units of affordable and permanent supportive housing in the amount of $2.8 million. The Note shall accrue interest at the rate of 3% per annum on outstanding principal. The Note is due 55 years after the completion of and issuance of a certificate of occupancy.

Commencing on the completion of and issuance of a certificate of occupancy for the Project, annual payments of 17.95% of Residual Receipts for the preceding annual period shall be paid to Tri-City and applied to the sums outstanding under the Note.

NOTE #6 – CAPITAL ASSETS

The following schedule summarizes capital asset activity for the years ended June 30, 2021 and 2020:

	Beginning Balance	Additions	Deletions	Ending Balance
June 30, 2021:				
Capital Assets not being depreciated:				
Land	$ 2,520,749	$ -	$ -	$ 2,520,749
Capital Assets, being depreciated:				
Buildings and improvements	8,233,466	23,810	(2,750)	8,254,526
Leasehold improvements	105,878	-	-	105,878
Furniture and equipment	2,223,872	349,855	(80,646)	2,493,081
Total Capital Assets being depreciated	10,563,216	373,665	(83,396)	10,853,485
Less accumulated depreciation for:				
Buildings and improvements	(4,008,208)	(333,923)	2,750	(4,339,381)
Leasehold improvements	(96,888)	(4,660)		(101,548)
Furniture and equipment	(1,732,759)	(235,443)	80,050	(1,888,152)
Total Accumulated Depreciation	(5,837,855)	(574,026)	82,800	(6,329,081)
Total Capital Assets being depreciated	4,725,361	(200,361)	(596)	4,524,404
Capital Assets, Net	**$ 7,246,110**	**$ (200,361)**	**$ (596)**	**$ 7,045,153**

NOTE #6 – CAPITAL ASSETS, Continued

June 30, 2020:	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated:				
Land	$ 2,520,749	$ -	$ -	$ 2,520,749
Capital Assets, being depreciated:				
Buildings and improvements	8,233,466	-	-	8,233,466
Leasehold improvements	105,878	-	-	105,878
Furniture and equipment	1,884,134	447,166	(107,428)	2,223,872
Total capital assets being depreciated	10,223,478	447,166	(107,428)	10,563,216
Less accumulated depreciation for:				
Buildings and improvements	(3,674,267)	(333,941)	-	(4,008,208)
Leasehold improvements	(92,228)	(4,660)	-	(96,888)
Furniture and equipment	(1,699,217)	(140,970)	107,428	(1,732,759)
Total Accumulated Depreciation	(5,465,712)	(479,571)	107,428	(5,837,855)
Total Capital Assets being depreciated	4,757,766	(32,405)	-	4,725,361
Capital Assets, Net	**$ 7,278,515**	**$ (32,405)**	**$ -**	**$ 7,246,110**

In fiscal 2021 and 2020, Tri-City disposed of $83,396 and $107,428 of fully depreciated 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).

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.

NOTE #7 –BANKRUPTCY, Continued

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 for the fiscal years 2001-02, 2002-03 and 2003-04 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 these funds were used to make payment on Tri-City's Class 2 General Unsecured bankruptcy claimants on November 30, 2012. In addition, in January 2016, Tri-City received $257,534 resulting from a pass through of the EPSDT audit settlement for fiscal 2002-03 which was used to make payments on Class 3 and Class 4 balances on January 26, 2016.

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 2021, Tri-City has made payments to Class 3 Unsecured CAL DMH and Class 4 Unsecured LAC DMH claims of $10,899,193 representing approximately 100% 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 most current contract with LAC DMH is effective from July 1, 2020 through June 30, 2025, which includes four automatic renewal periods without any further action on Tri-City's behalf.

During fiscal year 2021, Tri City completely paid off the remaining "Bankruptcy Liabilities" in the amount of $656,064. Below reflects the remaining 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, 2021 and 2020 to the claimants.

The bankruptcy liabilities as of June 30, 2021 and 2020 are summarized by Bankruptcy Claim Class as follows:

	2021	2020
Class 3 — Unsecured Claim of CAL DMH, net	$ -	$ 397,351
Class 4 — Unsecured Claim of LAC DMH	-	258,713
Total Bankruptcy Liabilities	$ -	$ 656,064

The remaining classes of Bankruptcy claims are described in the following page.

NOTE #7 –BANKRUPTCY, Continued

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 $397,351 at June 30, 2020 and zero at June 30, 2021 reflect Tri-City's bankruptcy payments made to CAL DMH during Fiscal years 2013 through 2021. As noted previously, final payment was made during fiscal year 2021 bringing the total bankruptcy liability balances to zero.

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 $258,713 at June 30, 2020 and zero at June 30, 2021 reflect Tri-City's bankruptcy payments made to LAC DMH during Fiscal 2013 through 2021. As noted previously, final payment was made during fiscal year 2021 bringing the total bankruptcy liability balances to zero.

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

In prior years, 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 (as described at Note #7), and up through services provided in fiscal 2006-07, Tri-City submitted claims covered by the Short-Doyle/Medi-Cal program directly to the California Department of Mental Health. Commencing with services provided subsequent to June 30, 2007, Tri-City presently submits claims under the Medi-Cal program through LAC DMH. In addition, prior to filing bankruptcy, Tri-City had provided services through other LAC DMH programs. These programs were paid based on a fixed or contracted rate or reimbursable costs, whichever was 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 as reserves during the year the services are provided and reflected as "Estimated Third Party Payor 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 disclosed in previous years, the only outstanding liabilities related to settlement and audit letters received, have been for services provided pre-bankruptcy and have therefore been included within the Bankruptcy Liabilities balance.

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

Estimated Third Party Payor Settlements

Tri-City's Estimated Third Party Payor Settlements are included in both current liabilities and in bankruptcy liabilities. Estimated Third Party Payor Settlements reflected in current liabilities is $5,599,629 at June 30, 2021 and $5,308,377 at June 30, 2020. 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 2013 through fiscal 2021. The reserves for fiscal years 2013 through 2021 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 at which time Tri-City would remove the reserve amount related to that fiscal year.

The reported balances for reserves for Estimated Third Party Payor Settlements included in "Bankruptcy Liabilities" at June 30, 2021 is zero and $258,713 at June 30, 2020. 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 2021. As noted previously, final payment was made during fiscal year 2021 bringing the total bankruptcy liability balances to zero.

Cost Reports Payable

At June 30, 2021 and 2020, Tri-City reflected a zero balance and $397,351, respectively, for remaining 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, 2020 balances reflect the claim payments made by Tri-City in fiscal 2021. These liabilities are reflected as "Bankruptcy Liabilities" in the Statement of Net Position. As noted above the remaining bankruptcy balances were paid off completely during fiscal year 2021.

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION

Tri-City Mental Health Authority offers the following plans:

A. <u>Tri-City 401A Money Purchase Plan</u>

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 MPP. 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, 2021 and 2020 was $10,733 and $9,935, respectively.

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

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

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

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: https://www.calpers.ca.gov/page/employers/actuarial-resources

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 rate plan provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous Pool	
	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%	6.75%
Required employer contribution rates	11.031%	7.732%

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

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

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 each of the Tiers within the Plan are determined annually on an actuarial basis as of June 30 by CalPERS.

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability. The dollar amounts are billed on a monthly basis. Tri-City's required contributions for the unfunded liability included in the total employer contributions, was $334,214 and $256,315 in fiscal year 2021 and 2020, respectively.

Tri-City employees enrolled in the PERS are required to contribute the "employee" contribution of 7% for the Classic Tier and 6.75% for the PEPRA Tier 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, 2021 and 2020, Tri-City's contributions to the Plan were $1,586,047 and $1,328,508, respectively.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - As of June 30, 2021 and 2020, Tri-City reported a liability for its proportionate share of the net pension liability of the Plan of $6,325,906 and $5,462,528, respectively.

Tri-City's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan at June 30, 2021 is measured as of June 30, 2020, and the total pension liability for the Plan is used to calculate the net pension liability which was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 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 Plan relative to the projected contributions of all participating employers, actuarially determined.

Tri-City's proportionate share of the net pension liability, measured as of June 30, 2019 and 2020 is as a follows:

	Plan
Proportion - June 30, 2019	0.05331%
Proportion - June 30, 2020	0.05814%
Change in proportion- Increase (Decrease)	0.00483%

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

At the year ended June 30, 2021 and 2020, Tri-City recognized pension expense of $2,160,072 and $2,053,110, respectively, associated with the net pension liability. At June 30, 2021 and 2020, 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, 2021	June 30, 2020
Tri-City contributions subsequent to measurement date	$ 1,586,047	$ 1,328,508
Changes of assumptions	-	260,479
Net difference between expected and actual earnings on pension plan investments	187,921	-
Changes in proportion and differences between Tri-City's contributions and proportionate share of contributions	107,261	92,877
Changes in employer's proportion	686,756	715,482
Differences between expected and actual experience	325,993	379,395
Total Deferred Outflows	2,893,978	2,776,741
Deferred Inflows of Resources		
Changes of assumptions	(45,119)	(92,337)
Net difference between expected and actual earnings on pension plan investments	-	(95,502)
Differences between expected and actual experience	-	(29,397)
Total Deferred Inflows	(45,119)	(217,236)
Amounts Not Amortized		
Tri-City's contributions subsequent to measurement date	(1,586,047)	(1,328,508)
Net Total Deferred Outflows and Inflows to be Amortized	$ 1,262,812	$ 1,230,997

The amount of $1,586,047 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 fiscal year ended June 30, 2022. 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,	
2022	$ 481,084
2023	432,725
2024	258,871
2025	90,132
Total	$ 1,262,812

NOTE #9 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

Actuarial Assumptions – The total pension liability of the Plan in the June 30, 2019 and June 30, 2018 actuarial valuations were determined using the following actuarial assumptions.

Balance Sheet Date:	June 30, 2021	June 30, 2020
Valuation Date:	June 30, 2019	June 30, 2018
Measurement Date:	June 30, 2020	June 30, 2019
Actuarial Cost Method:	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll Growth	2.50%	2.75%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.15% (2)	7.5% (2)
Mortality Rates	Derived using CalPERS membership Data for all funds	

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

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

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website at: https://www.calpers.ca.gov/page/employers/actuarial-resources

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 (Public Employees' Retirement Fund) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 PERF 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 equal 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 the Plan and are summarized in the following tables:

June 30, 2020 Measurement

Asset Class	Target Allocation	Expected Real Rate of Return Years 1 thru 10[1]	Expected Real Rate of Return Years 11 thru 60[2]
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	0.00%	(0.92)%
Total	100%		

June 30, 2019 Measurement

Asset Class	Target Allocation	Expected Real Rate of Return Years 1 thru 10	Expected Real Rate of Return Years 11 thru 60
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Estate	13%	3.75%	4.93%
Liquidity	1%	0.00%	(0.92)%
Total	100%		

[1]An expected inflation of 2.0% used for this period

[2]An expected inflation of 2.92% used for this period

Discount Rate – The discount rate used to measure the total pension liability as of June 30, 2020 and 2019 was 7.15% and 7.15%, respectively, for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% 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.

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, calculated using the discount rate of 7.15% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	2021	2020
1% Decrease	6.15%	6.15%
Tri-City's Proportionate Share of the Net Pension Liability	$ 10,869,867	$ 9,603,249
Current Discount Rate	7.15%	7.15%
Tri-City's Proportionate Share of the Net Pension Liability	$ 6,325,906	$ 5,462,528
1% Increase	8.15%	8.15%
Tri-City's Proportionate Share of the Net Pension Liability	$ 2,571,373	$ 2,044,655

Pension Plan Fiduciary Net Position – Detailed information about the Plan's fiduciary net positions 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, 2021 and 2020:

	Balance Beginning of Year	**Additions**	**Deletions**	**Balance End of Year**	**Due Within One Year**
June 30, 2021	$ 802,374	$ -	$ (30,688)	$ 771,686	$ 771,686
June 30, 2020	$ 831,440	$ -	$ (29,066)	$ 802,374	$ 30,688

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 balance requirement at June 30, 2021 and 2020.

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
2022	771,686	35,288
Total Payments	$ 771,686	$ 35,288
Current Principal Portion	$ 771,686	
Long-term Principal Portion	$ -	

Interest expense on the mortgage note for the fiscal years ended June 30, 2021 and 2020 was $39,965 and $41,592, respectively. As noted previously, under the current terms of the note, a balloon payment is due in June of 2022. As such there is no long term portion noted above.

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. Once eligibility requirements are met, these amounts will be recognized into revenues or deferred inflows of resources.

Per the MHSA Statute, any funds allocated to a county/city which have not been spent for their authorized purpose within three years shall be reverted to the State to be deposited into the MHSA fund and made available for other counties in future years. Based on the most current information, including guidance from DHCS and the most recent State Budget Trailer Bill (AB 114), passed in 2017, Tri-City has determined no amounts are subject to reversion as of June 30, 2021 and 2020.

Tri-City classifies the MHSA Revenue received but not meeting time requirements as MHSA Revenues Restricted for Future Period under the Deferred Inflows of Resources caption on the Statements of Net Position. As of June 30, 2021 and 2020 MHSA Revenues Restricted for Future Period are $8,413,843 and $6,625,119, respectively.

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

The following table reflects the activity in the Deferred Inflows of Resources-MHSA Revenues Restricted For Future Period and Unearned MHSA Revenue Accounts for the Community Services and Support (CSS) Plan, the Prevention and Early Intervention (PEI) Plan, the Innovations (INN) Plan, the Workforce Education and Training (WET) Plan, and the Capital Facilities & Technology (CFTN) Plan programs and unapproved plans during the fiscal years ended June 30, 2021 and 2020:

	Balance Beginning of Year	Funding Received	Transfer	Amounts Recognized as Non-Operating Revenue	Reclassification of Previously Unapproved Programs	Balance End of Year
June 30, 2021						
CSS	$ 6,381,486	$ 11,734,794	$ -	$ (10,712,194)	$ (35,690)	$ 7,368,396
PEI	18,922	2,939,793	-	(2,217,534)	-	741,181
INN	224,711	792,593	-	(316,438)	(396,600)	304,266
WET	-	3,102	-	-	(3,102)	-
CFTN	-	1,201	-	(277,622)	276,421	-
MHSA Revenues Restricted for Future Period	$ 6,625,119	$ 15,471,483	$ -	$ (13,523,788)	$ (158,971)	$ 8,413,843
Unearned MHSA Revenues	$ 276,421	$ -	$ -	$ -	$ 158,971	$ 435,392
June 30, 2020						
CSS	$ 7,633,920	$ 7,737,034	$ -	$ (8,989,468)	$ -	$ 6,381,486
PEI	137,022	1,934,260	-	(2,052,360)	-	18,922
INN	454,247	509,016	-	(738,552)	-	224,711
WET	126,523	-	-	(126,523)	-	-
CFTN	-	-	-	(223,579)	223,579	-
MHSA Revenues Restricted for Future Period	$ 8,351,712	$ 10,180,310	$ -	$ (12,130,482)	$ 223,579	$ 6,625,119
Unearned MHSA Revenues	$ 500,000	$ -	$ -	$ -	$ (223,579)	$ 276,421

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, 2021 and 2020 by specific MHSA Program Plans.

Restricted Net Position for MHSA Programs		**2021**	**2020**
Community Services and Supports	*	$ 11,627,757	$ 9,428,434
Prevention and Early Intervention		2,209,741	1,814,307
Innovation		1,529,421	1,080,377
Workforce, Education and Training		237,916	550,417
Capital Facilities and Technology Needs		1,128,053	994,983
Prudent Reserves		2,349,322	2,336,163
Total Restricted Net Position for MHSA Programs		$ 19,082,210	$ 16,204,681

* During fiscal year 2017 and through the stakeholder process, the amount of $1.2 million in unspent funds was designated for future housing projects as part of the Permanent Supportive Housing programs which is included within the Community Services and Supports (CSS) Plan. During fiscal year 2019, an additional $1.6 million in unspent funds was designated for future housing programs within the CSS Plan. Amounts designated for Permanent Supportive Housing programs within the CSS Plan as of June 30, 2020 was $2,800,000 and during fiscal year 2021 the amount of $2.8 million was transferred to the developer via a Note Receivable, see Note 5B for further details.

NOTE #13 – COMMITMENTS AND CONTINGENCIES

General

Claims for damages that arise through the normal course of operations, alleged against Tri-City are generally filed with or referred to a claims adjuster through Tri-City's insurance providers. As of June 30, 2021, and through the date of this report, management believes based upon consultation with legal counsel, that any such reported matters are not expected to have a material impact on Tri-City, that there is minimal exposure to Tri-City and that no case so reported exceeds existing liability coverages.

NOTE #13 – COMMITMENTS AND CONTINGENCIES, Continued

Bankruptcy Filing

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 2021. Continued payments on allowed claims have depended on funds available as defined in the Bankruptcy Plan and the continued term of Tri-City's contract with LAC DMH. In May of 2021 Tri-City made its final bankruptcy payment to LA DMH and DHCS bringing the balance to zero.

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. Management believes any actions that may result from investigations of noncompliance with laws and regulations will not have a material effect on Tri City's future financial position or results of operations.

Realignment and MHSA Funding

Realignment and MHSA funding are based on taxes collected by the State. Due to the possible changing economic conditions continually 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 was 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 (2020) anniversary of the completion 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 the final reimbursement of costs in the amount of $57,167. At June 30, 2021, and 2020, the outstanding balance of the loan was $58,872 and $88,309, respectively.

NOTE #14 – OPERATING LEASES

Tri-City has entered into various operating leases for the use of equipment and office space. The lease payments range from $21 to $12,962 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. On October 1, 2020 Tri-City entered into a new lease for a term of five years with a monthly rent payment of $7,123 and an annual adjustment based on CPI. The rent expense for this facility at June 30, 2021 and 2020 was $95,442 and $94,964, respectively.

Years Ended June 30,	Lease Payments
2022	$ 97,351
2023	99,298
2024	101,284
2025	103,310
2026	25,827
	$ 427,070

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 the QA/Best Practices program and various mental health programs including Children and Family Outpatient Clinic and Full Service Partnership services.

In March of 2019, Tri-City entered into a fourth new agreement for the rental of additional office space suites and simultaneously extending all three existing leases to the same terms which are due to expire on June 30, 2025. During fiscal year ended June 30, 2021, there were a total of four leases with monthly payments ranging from $5,390 to $12,962. The remaining minimum required payments for the Royalty Building leases are as follows:

Years Ended June 30,	Lease Payments
2022	$ 465,612
2023	474,768
2024	484,128
2025	493,752
	$ 1,918,260

NOTE #14 – OPERATING LEASES, Continued

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 2021 and 2020 Tri-City rented a total of five units under one master lease which is now on a month-month basis with the current payment of $5,850 per month. 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 $64,652 and $61,405 at June 30, 2021 and 2020, respectively. This expense is reflected as an operating expense in "Client lodging, transportation, and supply expense."

Equipment

Tri-City has entered into various leases for the rental of office equipment. The monthly payments range from $21 to $1,796 and the rental payments are classified as operating expenses in "facility and equipment operating costs."

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

Years Ended June 30,	Lease Payments
2022	$ 52,490
2023	35,085
2024	18,449
2025	2,855
2026	1,078
	$ 109,957

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/Special Defense	$ 2,000,000	$ 3,000,000	$ -
General Liability/Employee Benefit Liability	$ 2,000,000	$ 3,000,000	$ 0 / $ 1,000
Workers Compensation	$ 1,000,000	Unlimited	$ -
Directors and Officers/EPL	$ 2,000,000	$ 4,000,000	$ 25,000
Automobile	$ 1,000,000	$ 1,000,000	$ 1,000
Property-Building	$ 12,333,380	$ 12,333,380	$ 1,000
Property-Computer	$ 2,240,000	$ 2,240,222	$ 1,000
Cyber Liability	$ 5,000,000	$ 5,000,000	$ 10,000
Crime	$ 5,000,000	$ 5,000,000	$ 25,000
Earthquake / Flood	$ 5,000,000	$ 5,000,000	$ 50,000
Umbrella Excess Coverage	$ 5,000,000	$ 5,000,000	$ -

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

The Los Angeles County Board of Supervisors originally 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. In June of 2017, a three-year agreement was once again renewed (1-year agreement with two optional extension periods to June 30, 2020). 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 its MHSA programs including Full Service Partnership programs. The most current contract with LAC DMH is now effective from July 1, 2020 through June 30, 2021 with four automatic renewal periods without any further action on Tri-City's behalf.

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 2021 and $70,236 in 2020 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)*. In July of 2018, the Governing Board authorized resolution No. 455, for Tri-City to enter into an agreement with the City of Pomona for the use of the City's year-round emergency shelter facility in the amount of $396 thousand and $396 thousand for fiscal years ending June 30, 2021 and June 30, 2020, respectively. In August of 2019, Tri-City entered into an agreement with the City of Pomona to pass through Measure H monies to provide various services to address homelessness including the hiring of four Navigators, as of June 30, 2021 Tri-City has received $490,792 in Measure H funds.

NOTE #18 – SUBSEQUENT EVENT

On September 15, 2021, the Board approved Resolution 611, authorizing management to extinguish the remaining mortgage balance. As a result, on October 7, 2021 management wired $766,003 which included remaining principal and accrued interest to date owed on the mortgage note held by Pacific Western Bank.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2021	2020	2019	2018	2017	2016	2015
Proportion of the net pension liability	0.05814%	0.05331%	0.04834%	0.04780%	0.04370%	0.03690%	0.03960%
Proportionate share of the net pension liability	$ 6,325,906	$ 5,462,528	$ 4,658,577	$ 4,740,262	$ 3,781,246	$ 2,535,970	$ 2,460,332
Covered payroll **	$ 12,763,454	$ 11,750,054	$ 10,245,313	$ 10,121,504	$ 9,129,664	$ 8,281,847	$ 7,979,687
Proportionate share of the net pension liability as a percentage of covered payroll **	49.56%	46.49%	45.47%	46.83%	41.42%	30.62%	30.83%
The pension plan's fiduciary net position as a percentage of the total pension liability	77.71%	77.73%	77.69%	73.31%	74.06%	78.40%	79.82%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

* Fiscal year 2015 was the first year in which GASB 68 was implemented, therefore only seven years are shown.
** Covered payroll represents earnable and pensionable compensation

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

	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contributions	$ 1,586,047	$ 1,328,508	$ 1,134,877	$ 904,469	$ 861,026	$ 734,761	$ 762,546
Contributions in relation to the actuarially determined contribution	1,586,047	1,328,508	1,134,877	904,469	861,026	734,761	762,546
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll **	$ 13,885,388	$ 12,763,454	$ 11,750,054	$ 10,245,313	$ 10,121,504	$ 9,129,664	$ 8,281,847
Contributions as a percentage of covered payroll **	11.42%	10.41%	9.66%	8.83%	8.51%	8.05%	9.21%

* Fiscal year 2015 was the first year in which GASB 68 was implemented, therefore only seven years are shown.
** Covered payroll represents earnable and pensionable compensation

NOTE TO SCHEDULES

Change in Assumptions – In 2017, the accounting discount rate reduced from 7.65% to 7.15%.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Governing Board of
Tri-City Mental Health Authority
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 Authority (Tri-City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Tri-City's basic financial statements, and have issued our report thereon dated December 10, 2021.

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) as a basis for designing 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Tri-City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Eide Bailly LLP

Rancho Cucamonga, California
December 10, 2021