TRI-CITY MENTAL HEALTH AUTHORITY

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2023

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TABLE OF CONTENTS

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Tri-City Mental Health Authority (Tri-City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Tri-City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Tri-City, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tri-City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Tri-City has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 96 – *Subscription-Based Information Technology Arrangements*, for the year ended June 30, 2023. Accordingly, a restatement has been made to beginning net position as of July 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tri-City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tri-City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tri-City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2024, on our consideration of Tri-City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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
March 15, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2023

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 year ended June 30, 2023 along with comparative information for fiscal year ended 2022.

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 directly receive 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 2,449 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 COVID-19 crisis, the clinical teams 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 several years, Tri-City 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 which is currently in the process of being developed as an affordable permanent supportive housing project for seniors. 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 however can be leveraged (as the match) for Medi-Cal reimbursement for services provided through FSP and other MHSA programs. 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 various events including the impacts 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 activities* 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, 2023, and 2022:

Statements of Net Position

	2023	2022
Assets		
Current Assets	$ 51,845,422	$ 48,208,663
Capital Assets, Net	8,447,175	7,859,905
Note Receivable	2,800,000	2,800,000
Other Assets	307,240	546,581
Total Assets	63,399,837	59,415,149
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	5,749,104	2,857,668
Total Deferred Outflows of Resources	5,749,104	2,857,668
Liabilities		
Current Liabilities	13,048,334	9,047,325
Noncurrent Liabilities (excluding Net Pension Liability)	2,104,997	1,773,338
Net Pension Liability	8,262,600	2,302,724
Total Liabilities	23,415,931	13,123,387
Deferred Inflows of Resources		
MHSA Revenues Restricted for Future Period	8,349,490	13,290,164
Deferred Inflows Related to Pensions	237,328	2,010,157
Total Deferred Inflows of Resources	8,586,818	15,300,321
Net Position		
Net Investment in Capital Assets	6,770,797	6,756,551
Restricted for MHSA Programs	22,798,801	20,249,230
Unrestricted	7,576,594	6,843,328
Total Net Position	$ 37,146,192	$ 33,849,109

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

  - *Comparison of June 30, 2023 to June 30, 2022*. At June 30, 2023, Tri-City reflected an increase in total assets of approximately $3.7 million. The most significant amounts attributing to the increase in total assets includes the increase in accounts receivable of approximately $4.4 million offset by a decrease in cash and investments of approximately $900 thousand and prepaid assets. Total cash and investments at June 30, 2023 was approximately $39 million reflecting a net decrease of approximately $1 million from the balance at June 30, 2022 of $39.9 million. The most significant reasons attributing to the overall decrease in cash is due to a decrease in the collection of MHSA Funds by the state. The MHSA is funded through the imposition of a 1% State income tax on personal income in excess of $1 million and during fiscal year 2022-23, CBHDA had announced a projected decrease to these revenues based on their most recent data. Additionally, early during fiscal year 2023, the State of California announced the extension of tax filing as a result of extreme weather which directly impacted the collection of MHSA funds. The increase of approximately 53% in the accounts receivable balance resulted from an increase to Medi-Cal receivables and realignment receivables as noted at Note #5. Realignment receivable was up approximately $660 thousand as a result of growth in state vehicle license fees and sales taxes. The Medi-Cal receivables balance increased by approximately $2.9 million primarily from the decrease in cash collected during the fiscal year and due to timing of the payments. In fiscal year 2022, Tri-City received approximately $12 million from LA DMH however during fiscal year 2023, Tri-City only collected $8 million. Subsequent to year-end, $739 thousand was received.

- **Deferred Outflows of Resources**

  - *Comparison of June 30, 2023 to June 30, 2022.* 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 $5,749,104 as Deferred Outflows of Resources at June 30, 2023 which reflects an increase of approximately $2.9 million 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 #8B).

- **Total Liabilities** are comprised of current and noncurrent liabilities, including lease liabilities, estimated third party payor settlements, net pension liability unearned MHSA revenues and SBITA liabilities.

  - *Comparison of June 30, 2023 to June 30, 2022*. Total liabilities increased by approximately $10.3 million from $13.1 million at June 30, 2022 to $23.4 million at June 30, 2023.

    This total net change of approximately $10.3 million is made up several changes which include increases to accrued payroll liabilities, the net pension liability and the addition of SBITA liabilities. The most significant increase to liabilities was due to the change in net pension liability (as more fully described at Note #8B of the financial statements), which experienced an increase of approximately $6 million in fiscal year ending 2023. Tri-City's proportionate share of the Plan's pooled net pension liability at June 30, 2023 is $8,262,600. The net increase to this liability from fiscal 2022, primarily was as a result of changes in the discount rate from 7.15% to 6.90%. Additionally, the changes also includes 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 accrued payroll balance of $3.3 million at June 30, 2023 also experienced a significant increase by approximately $3 million as compared to the balance of $300 thousand at June 30, 2022. The increase in the liability reflects an accrual of salaries and wages as a direct result of the outcome of the comprehensive classification and compensation study. The study while mostly completed during fiscal year 2022-23, was not fully processed as of June 30, 2023 and therefore a liability was recorded at year end.

The third largest change in total liabilities included the recognition of a new liability as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This new accounting pronouncement (more fully explained at Note #2Q, Note #3 and Note #13 to the financial statements) required the accounting for the related assets and liabilities associated with these IT subscription arrangements. The resulting liability at June 30, 2023 is $960,430.

The Unearned MHSA Revenues balance (reported under Noncurrent Liabilities) experienced a change from the prior year as a result of funds received that are dedicated to the MHSA CSS and INN Plans however not yet programmed. As noted at June 30, 2023 and at June 30, 2022, noncurrent unearned MHSA revenues were approximately $1.1 million and $1 million, respectively. The unearned MHSA revenue recorded in noncurrent liabilities at June 30, 2023 and 2022 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 2023 and 2022, as a result of the review of existing MHSA programs and updates, approximately $8.3 million and $13.3 million in MHSA Revenues Restricted for Future Period was identified as approved and available to be spent in fiscal 2024 and 2023, respectively.

Lastly, the third largest liability in the amount of $6,324,285 for Estimated Third Party Payor Settlements decreased by approximately $53 thousand from the prior year's amount of $6,377,063 as a result of noted decreases in amounts billed during fiscal year 2022-23. As more fully described at Note #7, 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.

  - <u>*Comparison of June 30, 2023 to June 30, 2022*</u>. At June 30, 2023 and June 30, 2022 the amounts reported for MHSA Revenues Restricted for Future Period under this caption totaled the approximate amount of $8.4 million and $13.3 million, respectively. The decrease of approximately $4.9 million was due to an overall decrease of MHSA revenues (deferred for a future period) that are to be utilized during fiscal 2024. The MHSA is funded through the imposition of a 1% State income tax on personal income in excess of $1 million and as mentioned previously, during fiscal year 2023, a decrease in MHSA revenues was projected and announced by the State of California as a result of tax filing delay resulting from extreme weather in California. The MHSA revenue restricted for future period recorded within this caption reflect the receipt of MHSA funds in fiscal 2023 and 2022 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 #8B, 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 $237,328 at June 30, 2023 and $2,010,157 at June 30, 2022 as Deferred Inflow of Resources, net of applicable amortization. The net decrease of approximately $1.8 million from fiscal 2022 to 2023 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, 2023*. Tri-City's net position at June 30, 2023 was approximately $37.2 million, which is the result of total assets of $63.4 million and total deferred outflow of resources of $5.7 million less total liabilities and deferred inflow of resources of $23.4 million and $8.6 million, respectively. Net position is comprised of Net Investment in Capital Assets of approximately $6.8 million (capital assets less the lease and SBITA liabilities), Net Position Restricted for MHSA Programs of approximately $22.8 million, and Unrestricted Net Position of approximately $7.6 million. The increase in Net Investment in Capital Assets of approximately $14 thousand was primarily due to the purchase computer equipment and improvements made to the community garden offset by the annual depreciation in addition to an increase to building improvements as a result of a capital project to upgrade the electrical panels. Additionally, as a result of the implementation of GASB Statement No. 96 (more fully described at Note #2Q, Note #3 and Note #13) assets related to the SBITA have been recognized and resulting in an addition of capital assets in the amount of $1,242,305. The increase of $2.5 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 $733 thousand, primarily as a result of the significant increase to the Net Pension Liability which is based on the actuarial valuation prepared by CalPERS (also refer to Note #8 for more information) and then offset by the increase to Med-Cal revenue. Additionally, during fiscal year 2022-23, Tri-City received an increase in Realignment revenue of approximately $660 thousand.

The following table shows the change in net position during the fiscal years ended June 30, 2023, and 2022:

Statements of Revenues, Expenses and Changes in Net Position

	2023	2022
Operating Revenues:		
Medi-Cal - Federal Financial Portion	$ 10,051,519	$ 8,005,866
Medi-Cal - State EPSDT	2,100,605	2,100,605
Other Operating Income	146,820	157,820
Total Operating Revenue	12,298,944	10,264,291
Operating Expenses:		
Salaries, wages and benefits	26,994,901	17,863,808
Facility and equipment operating costs	1,679,399	1,841,634
Client lodging, transportation, and supply expense	575,951	776,921
Depreciation	1,199,875	934,545
Other operating expense	2,611,068	1,939,541
Total Operating Expenses	33,061,194	23,356,449
Operating Loss	(20,762,250)	(13,092,158)
Non Operating Revenues (Expenses), Net		
Realignment	5,767,101	5,108,703
MHSA Funding	16,352,860	11,870,955
Other Grants	601,305	234,737
Other Income	-	1,153
Measure H	100	233,926
Contributions from member cities	70,236	70,236
Investment income (loss)	1,051,894	(221,854)
Interest expense	(54,976)	(42,140)
Total Non Operating Revenues (Expenses)	23,788,520	17,255,716
Income Before Special Items	3,026,270	4,163,558
Special Items:		
City of Pomona HUD Loan		
forgivness of debt	29,435	29,437
SB 90 Claims	241,378	
Total Special Items	270,813	29,437
Change in Net Position	3,297,083	4,192,995
Net Position, Beginning of Year	33,849,109	29,656,114
Net Position, End of Year	$ 37,146,192	$ 33,849,109

Fiscal Year 2023 to 2022 Comparisons

- **Operating Revenues** — Operating revenues increased by approximately \$2.0 million. This increase is primarily due to a net increase in Medi-Cal revenues generated during the fiscal year, net of provision for doubtful accounts. As reimbursable costs fluctuate from year to year, so are the reimbursement rates through LA DMH. Medi-Cal eligible units of services are reimbursable on a cost per unit basis and the cost per unit of service billed increased primarily resulting from an increase in overall costs and specifically salaries which was impacted by a compensation study that was completed in fiscal 2023.

- **Operating Expenses** — Total operating expenses increased by approximately \$9.7 million (41.5%) in fiscal 2023 as compared to fiscal 2022. This increase was mainly due to the increase in salaries and benefits costs of approximately \$9.1 million which was directly impacted by the increase in the Net Pension Liability (further explained at Note #8), and then impacted by wage increases, an increase of active employees and mostly impacted by the completion and implementation of the comprehensive classification study that was initiated during fiscal 2021. The study was finally completed during fiscal year 2023, however, during fiscal 2022 the first group of wage increases were implemented and the remaining groups were postponed until such time the study was completed with the understanding that the implementation would be retroactively applied back to March of 2022. At June 30, 2023, accrued salaries and wages included amounts to account for salaries due to staff as a result of the completion of the study however not yet paid.

  Operating expenses also include Facilities and Equipment, Client Lodging and Transportation, and Other Operating Expenses. Total facilities and equipment expenses experienced a decrease of approximately \$162 thousand across various cost centers primarily a reduction of costs incurred in the prior year associated with Tri-City's unified communications systems. 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. Other Operating Expenses include expenses such as security, professional fees, banking fees and other miscellaneous operating expenses and the most significant increases in this category include increases in attorney fees and most significantly the nearly doubling of liability insurance due to market conditions and additional umbrella coverage related to our PACT team program (see footnote #17).

- **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 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 \$20.8 million in fiscal 2023 compared to \$13 million in 2022. The increase in operating losses resulted primarily from an increase in salaries and benefits expense as a direct result of the actuarial valuation that increased the Net Pension Liability as previously discussed. Additionally, and as noted above, a significant increase to accrued payroll at June 30, 2023 was the direct result of the completion of the comprehensive classification and compensation study that also contributed to the increase in salaries expense. The study as noted above, was completed just subsequent to the year and being processed, however not yet paid to employees as of June 30, 2023.

- **Non-Operating Revenues (Expenses), Net** — Non-operating revenues (expenses) were approximately \$23.8 million in fiscal 2023 and \$17.3 million in fiscal 2022, an increase of approximately \$6.5 million. This change is mainly due to the increase in MHSA funds recognized during fiscal 2022-23 by approximately \$4.5 million and by the increase in 1991 Realignment of approximately \$660 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 2022-23 MHSA update reflected a total increase in required MHSA funds primarily as a result of projected increased planned expenditures within the MHSA Approved Plans, which included increased expenditures in the WET and CFTN 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 change in net position as of June 30, 2023 decreased by approximately $895 thousand compared to fiscal year 2022. The total change in net position of $3.3 million for fiscal 2023 relates to operating revenues and non-operating revenues exceeding operating expenses. A net total increase to net position was experienced during fiscal year 2023 despite the increase in overall operating expenses of approximately $9.7 million. The increase in operating expenses was primarily as a result of the change in the net pension liability and accrued payroll liability with both of these resulting in a total increase to salaries, wages and benefits expense by approximately $9.1 million. 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 the pension liability at June 30, 2023 of $8,262,600 as compared to the prior year balance of $2,302,724 resulted from timing differences related to contributions and changes in proportionate shares which are components in the change to the net pension liability. Additionally, and as noted above, a significant increase to accrued payroll at June 30, 2023 was the direct result of the completion of the comprehensive classification and compensation study that also contributed to the increase in salaries expense. The study as noted above, was completed just subsequent to the year and being processed, however not yet paid to employees as of June 30, 2023.

Capital Asset and Debt Administration

	Capital Assets (Net of Depreciation)			
	2023		2022	
Land	$	2,520,749	$	2,520,749
Buildings and improvement		3,923,842		3,826,016
Leasehold improvements		-		-
Furniture and equipment		326,206		439,221
Right to Use - Building Leases		715,948		1,073,919
Right to Use - SBITA		960,430		-
Total	$	8,447,175	$	7,859,905

Tri-City's investment in capital assets as of June 30, 2023 and June 30, 2022 totaled approximately $8.4 million and $7.9 million, respectively. This investment in capital assets includes land, buildings and improvements, leasehold improvements, furniture and equipment and during fiscal 2022 Tri-City included intangible assets as a result of implementing GASB 87. As previously noted above and as a result of implementing GASB 87, existing leases previously identified as operating leases were required to be identified as lease liabilities on the Statement of Net Position with corresponding intangible assets equal to the lease liability, net of amortization. As part of the requirement of the GASB, this change was recorded retroactively. Additionally, and as more fully described at Note #2Q, Note #3 and Note #13, GASB 96 was implemented in fiscal year 2023 which included the recognition of assets related to IT subscription arrangements. Aside from the implementation of GASB 87 and GASB 96, the most significant changes that occurred with regard to capital assets in fiscal 2022, included the increase to building and improvements for the electrical upgrade project, and replacement of air conditioning units, and additions to IT infrastructure including new computers. Depreciation & Amortization expense for year ending June 30, 2023 and June 30, 2022 was approximately $1.2 million and $1 million, respectively with the noted increase related to the implementation of GASB 87 and GASB 96. Additional information on Tri-City's capital assets can be found in Note #6 to the financial statements.

	Noncurrent Liabilities	
	2023	**2022**
City of Pomona HUD Loan	-	29,435
Lease Liabilities	357,977	715,948
SBITA	666,689	-
Net pension liability	8,262,600	2,302,724
Unearned MHSA revenues	1,080,331	1,027,955
Total	$ 10,367,597	$ 4,076,062

Noncurrent liabilities include the Net Pension Liability (further explained at Note #8B to the financial statements), the Unearned MHSA Revenues (further explained at Note #2M and Note #9 to the financial statements), and lease liabilities which, as described previously, were new to the Statement of Net Position in fiscal year 2022 after the implementation of GASB Statement No. 87. Additionally, during fiscal year 2023, GASB Statement No. 96 was implemented which resulted in the recognition of liabilities related to Subscription Based Information Technology Arrangements (SBITA). The implementation of this GASB Statement required the recognition of assets relating to the right to use subscription IT assets, in addition to the corresponding liability. Further details relating to GASB Statement No. 96 are included at Note #2Q, Note #3 and Note #13 to the financial statements.

The most significant events with regard to noncurrent liabilities during the fiscal year ending June 30, 2023 included the following:

<u>2023</u>

- As further explained at Note #11, the HUD loan is a forgivable loan and during fiscal year 2023, the remaining approximately $29 thousand was forgiven by the City of Pomona reducing the balance to zero.
- The noncurrent portion of Lease Liabilities in the amount of $358 thousand at June 30, 2023 and $715 thousand at June 30, 2022 was new to the Statement of Net Position in the prior year as a result of the implementation of GASB 87 as further explained at Note #12. While the actual leases (for office space at the Royalty Building) are not considered new, the leases previously identified as operating leases met criteria under the new GASB statement which required the leases be recognized as a long-term liabilities and intangible assets on the Statement of Net Position. The implementation of GASB 87 occurred in fiscal 2022 which also required the recording of the liability.
- During fiscal year 2023, the implementation of GASB Statement No. 96 S*ubscription-Based Information Technology Arrangements* (SBITA) was required which included the recognition of assets and liabilities related to SBITAs (further explained at Note #2Q, Note #3 and Note #13 to the financial statements). At June 30, 2023 the amount of SBITA liabilities was $666,689.
- Based on the CalPERS actuarial valuation, the net pension liability increased by approximately $6 million. Refer to Note #8B to the financial statements for further details.
- As further described at Note #2L, 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 $52 thousand in Unearned MHSA Revenues, represents funds received during fiscal year 2023 that have not yet been approved for programming.

Economic Factors

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.

<u>MHSA</u> - 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. During fiscal year 2021-22, an increase to MHSA funds was experienced by approximate $1.9 million. According to the latest projections, fiscal year 2023-24 is expected to experience another increase in MHSA cash flows as compared to the amounts received in the current fiscal year 2022-23. This increase is primarily due to an expected significant annual adjustment specifically from the 2020 and 2021 tax filings and due to any growth or true-ups. Additionally, delays in tax filings as a result of extreme weather, delayed cash receipts expected in the current fiscal year to the subsequent fiscal year. For example, receipts of approximately $10.3 million were received in the month of August 2023, which represents nearly 90% of total receipts received in the current fiscal year 2022-23.

<u>1991 Realignment</u> - As mentioned above, CBHDA periodically provides updated information and estimates for 1991 Realignment. 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 growth is not guaranteed. During fiscal year 2022-23, Tri-City did receive its guaranteed base along with an additional $2.1 million in growth and a total increase of approximately $1.5 million in the prior year. According to CBHDA and consistent with the Governor's budget, Tri-City expects to receive

its minimum base of approximately $3.7 million annually, in addition to continuing to receive some growth for the next couple of years however not as significant as in fiscal years 2022 and 2023.

CalAIM - The Payment Reform portion under California's Advancing and Innovating Medi-Cal (CalAIM) is set to take place beginning in fiscal year 2023-24. Continuing discussions with LA DMH indicates that Tri-City should not expect any changes in payment mechanism as the LA DMH contract is not due for renewal until Fiscal year 2025.

Other Historical Factors

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 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

At June 30, 2023, Tri-City had approximately $39 million in cash. Of this amount, approximately $30.5 million is cash that is immediately available but restricted only for the implementation and provision of services under approved MHSA programs, $8.5 million is cash available for Tri-City's outpatient clinic operations and of these amounts approximately $1.1 million (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.

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

STATEMENT OF NET POSITION
JUNE 30, 2023

ASSETS	
Current Assets:	
Cash and investments *(Note #4)*	$ 8,561,016
Restricted cash and investments for MHSA programs *(Note #4)*	30,534,371
Accounts receivable, net of allowance for uncollectible accounts of $841,207 at June 30, 2023 (Note #5A)	12,750,035
Total Current Assets	51,845,422
Noncurrent Assets:	
Land	2,520,749
Capital assets being depreciated, net of accumulated depreciation *(Note #6)*	5,926,426
Note receivable *(Note #5B)*	2,800,000
Prepaid deposits *(Note #2E)*	307,240
Total Noncurrent Assets	11,554,415
Total Assets	63,399,837
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred outflows related to pensions *(Note #8B)*	5,749,104
LIABILITIES	
Current Liabilities:	
Accounts payable	614,921
Accrued payroll	3,327,204
Accrued vacation and sick leave	1,671,537
Other accrued liability	458,675
Estimated third party payor settlements *(Note #7)*	6,324,285
Current portion of lease liabilities *(Note #12)*	357,971
Current portion of SBITA liabilities *(Note #13)*	293,741
Total Current Liabilities	13,048,334
Noncurrent Liabilities:	
Lease liabilities (*Note #12*)	357,977
SBITA liabilities (Note #13)	666,689
Net pension liability (*Note #8B*)	8,262,600
Unearned MHSA revenues *(Note #9)*	1,080,331
Total Noncurrent Liabilities	10,367,597
Total Liabilities	23,415,931
DEFERRED INFLOWS OF RESOURCES:	
MHSA revenues restricted for future period *(Note #9)*	8,349,490
Deferred inflows related to pensions *(Note #8B)*	237,328
Total Deferred Inflows of Resources	8,586,818
NET POSITION	
Net investment in capital assets	6,770,797
Restricted for MHSA programs *(Note #10)*	22,798,801
Unrestricted	7,576,594
Total Net Position	$ 37,146,192

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

TRI-CITY MENTAL HEALTH AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Operating Revenues:		
Medi-Cal, net of provision for disallowances and bad debts	$	12,152,124
Medicare		21,423
Contracts		17,500
Rental income		75,340
Patient fees and insurance		1,458
Other income		31,099
Total Operating Revenues		12,298,944
Operating Expenses:		
Salaries, wages, and benefits		26,994,901
Facility and equipment operating costs		1,679,399
Client lodging, transportation, and supply expense		575,951
Depreciation & Ammortization		1,199,875
Other operating expense		2,611,068
Total Operating Expenses		33,061,194
Operating Income (Loss)		(20,762,250)
Non-Operating Revenues (Expenses):		
Realignment		5,767,101
MHSA funding		16,352,860
Measure H		100
Other Grants		601,305
Contributions from member cities		70,236
Investment income (loss)		1,051,894
Interest expense		(54,976)
Total Non-Operating Revenues (Expenses)		23,788,520
Income before Special Items		3,026,270
Special Item:		
SB90 Claims (Note #5)		241,378
City of Pomona HUD Loan (Note #11) forgiveness of debt		29,435
Total Special Items		270,813
Change in Net Position		3,297,083
Net Position at Beginning of Year, as restated (Note #14)		33,849,109
Net Position at End of Year	$	37,146,192

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

TRI-CITY MENTAL HEALTH AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from and on behalf of patients	$ 10,448,818
Payments to suppliers and contractors	(3,893,886)
Payments to employees for salaries and benefits	(22,672,435)
Net Cash Used by Operating Activities	(16,117,503)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Funding from Mental Health Services Act	11,464,562
Realignment	3,833,964
Contributions from member cities	70,236
Other Grants	601,405
Net Cash Provided by Noncapital Financing Activities	15,970,167
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(544,840)
Payment made on leases liabilities	(357,971)
Payment made on SBITA liabilities	(281,875)
Interest paid on capital debt	(54,976)
Net Cash Used by Capital and Related Financing Activities	(1,239,662)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	590,836
Net Cash Provided by Investing Activities	590,836
Net Increase (Decrease) in Cash and Cash Equivalents	(796,162)
Cash and Cash Equivalents at Beginning of Year	39,891,549
Cash and Cash Equivalents at End of Year	$ 39,095,387
Reconciliation of Cash to Statement of Net Position:	
Cash and Investments	8,561,016
Restricted cash and Investments	30,534,371
Total cash and Investments	$ 39,095,387

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

TRI-CITY MENTAL HEALTH AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Reconciliation of Operating Income (Loss) from Operations to Net Cash Used by Operating Activities:	
Operating Income (Loss)	$ (20,762,250)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:	
Depreciation & Ammortization	1,199,875
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable, net of allowance	(1,797,348)
(Increase) decrease in deposits	239,341
Increase (decrease) in accounts payable	340,100
Increase (decrease) in accrued payroll liabilities	3,027,259
Increase (decrease) in accrued leave	(404)
Increase (decrease) in other accrued liabilities	393,091
Increase (decrease) in estimate for third party payor settlements	(52,778)
Increase (decrease) in deferred inflows related to pensions	(1,772,829)
(Increase) decrease in deferred outflows related to pensions	(2,891,436)
Increase (decrease) in net pension liability	5,959,876
Net Cash Used by Operating Activities	$ (16,117,503)

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 Statement of Net Position, Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows.

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Realignment funds received from the State are required to be used by the Agency to provide mental health services, however, the Realignment funds received are allocated by the State based on State sales tax receipts. Therefore, the Realignment funds are not directly tied to billing for actual services provided and thus included as a non-operating revenue item. In addition, MHSA funds, as more fully described at *Notes #9 and #10,* are also reflected as non-operating revenues because they are "Non-Exchange Transactions".

C. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, Tri-City considers cash and cash equivalents as short-term highly liquid investments that are both readily convertible to known amounts of cash. At June 30, 2023, Tri-City's cash and cash equivalents included pooled cash balances and investments in the Local Agency Investment Fund (LAIF).

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. 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

E. Prepaid Deposits

Prepaid deposits include prepaid expense, security, rental and utility deposits that have been paid to third parties. At June 30, 2023, Tri-City had prepaid deposits outstanding in the amounts of $307,240.

F. 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.

G. 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.

H. Operating Revenues and Expenses

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

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. 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.

J. Medi-Cal Revenue

Tri-City submits its Medi-Cal claims through Los Angeles County of Department of Mental Health (LAC DMH) and receives FFP cost reimbursement for all qualifying mental health services. Revenue under this third-party payor agreement 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.

K. 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.

L. Mental Health Services Act (MHSA) Revenue

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

M. 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).*

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. 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, 2023, 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 #8B)* and estimated third party payor settlements *(Note #7)*.

O. 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 $22,798,801 of restricted net position, at June 30, 2023, which include MHSA funds that are restricted for use in MHSA programs. Net Investment in Capital Assets of $6,770,797 is equal to Tri-City's capital assets at June 30, 2023 (Note #6), net of the related lease liabilities and SBITA liabilities. The remaining Unrestricted Net Position at June 30, 2023 of $7,576,594. The unrestricted net position is available for the general operations of Tri-City.

P. Leases

Lease liabilities are recorded in accordance with GASB 87 which represents is the financial obligation for the payments required by Tri-City, discounted to present value. GASB 87 also requires the recognition of an intangible right-to-use lease asset in conjunction with the liability. As of June 30, 2023 Tri-City has recognized a lease liability in the amount of $715,948. As of June 30, 2023 Tri-City has recognized an right-to-use lease asset in the amount of $1,753,343 and accumulated amortization in the amount of $1,037,395. Amortization expense is recognized on a straight-line basis over the life to the associated agreement.

Q. SBITA

Right to use subscription IT assets are recognized at the subscription commencement date and represent Tri-City's right to use the underlying IT asset for the subscription term. Right to use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right to use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight line method. The amortization period varies from 3 to 5 years. Subscription Liabilities represent Tri-City's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments are discounted based on a borrowing rate determined by Tri-City. See further details at Note #13.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. 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, 2023 Tri-City reported $5,749,104 in deferred outflows of resources related to pensions as further explained at Note #8B.

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 #9, for additional details relating to MHSA revenues restricted for future period and unearned MHSA revenues. Additionally, Tri-City reported $237,328 at June 30, 2023 respectively in deferred inflows of resources related to pensions as further explained at Note #8B.

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 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

Effective In Current Fiscal Year

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 determined that there is no material effect to the Financial Statements.

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 determined that there is no material effect to the Financial Statements.

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.

The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset -an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position was zero (Note #14).

NOTE #3 – NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS, Continued

Effective in Future Years

GASB Statement No. 99 – In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Tri-City has not determined the effect of this Statement.

NOTE #3 – NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS, Continued

GASB Statement No. 100 – In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The Statement is effective for reporting periods beginning after June 15, 2023. Tri-City has not determined the effect of this Statement.

GASB Statement No. 101 – In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The Statement is effective for reporting periods beginning after December 15, 2023. Tri-City has not determined the effect of this Statement.

GASB Statement No. 102 – In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. The State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The Statement is effective for reporting periods beginning after June 15, 2024. Tri-City has not determined the effect of this Statement.

NOTE #4 – CASH AND INVESTMENTS

As of June 30, 2023, cash and investments in the Statements of Net Position consisted of the following:

Cash on hand	$ 2,030
Deposits with financial institutions	4,516,928
Deposit with Local Agency Investment Fund (LAIF)	34,576,429
Total Cash and Investments	$ 39,095,387

NOTE #4 – CASH AND INVESTMENTS, Continued

Investments

Tri-City is authorized under California Government Code to make direct investments. Tri-City has adopted an investment policy that is 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, 2023 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, 2023, $34,576,429 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, 2023, Tri-City's total cash balances held by banks and collateralized by the pledging Financial Institutions under the California Government Code, but not in Tri-City's name, was $4,880,413, 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 $30,534,371 at June 30, 2023. 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, 2023, 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, 2023 are uncategorized inputs not defined as a Level 1, Level 2, or Level 3 input.

NOTE #5 – RECEIVABLES

A - Accounts Receivable

Accounts receivable at June 30, 2023, consisted of the following:

Accounts Receivable:	
Medi-Cal	$ 10,201,249
Medicare	839
Realignment	1,933,137
Grants and Contracts	534,753
SB 90 Claims	241,379
Interest & Other Receivables	679,885
Total Accounts Receivable	$ 13,591,242
Less: Allowance for Doubtful Accounts	(841,207)
Accounts Receivable, Net	$ 12,750,035

Services delivered to Medi-Cal eligible clients are reimbursed to Tri-City through a contract with LA DMH. The outstanding balance for Medi-Cal services was $10,201,249 at June 30, 2023 and represent services provided during fiscal year 2023 and for prior years. 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. The allowance for doubtful accounts is estimated based on withholding percentages previously used by LAC DMH, and will be adjusted upon settlement of the cost reports. The provision expensed in fiscal 2023 for doubtful accounts was approximately $24 thousand.

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 simple 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. As of June 30, 2023, Tri-City has recorded $168,000 of accrued interest receivables and interest income related to the note.

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 year ended June 30, 2023:

	Beginning Balance, as Restated	Additions	Deletions	Ending Balance
June 30, 2023:				
Capital Assets not being depreciated:				
Land	$ 2,520,749	$ -	$ -	$ 2,520,749
Capital Assets, being depreciated:				
Buildings and improvements	8,499,324	445,463	-	8,944,787
Leasehold improvements	105,878	-	-	105,878
Furniture and equipment	2,445,014	99,377	(57,799)	2,486,592
Right to use - Building Leases (*Note #12*)	1,753,343	-	-	1,753,343
SBITA (Note #13)	597,717	644,588	-	1,242,305
Total Capital Assets being depreciated	12,803,559	1,189,428	(57,799)	14,532,905
Less accumulated depreciation for:				
Buildings and improvements	(4,673,308)	(347,637)	-	(5,020,945)
Leasehold improvements	(105,878)	-	-	(105,878)
Furniture and equipment	(2,005,793)	(212,392)	57,799	(2,160,386)
Right to use - Building Leases (*Note #12*)	(679,424)	(357,971)	-	(1,037,395)
SBITA (Note #13)	-	(281,875)	-	(281,875)
Total Accumulated Depreciation	(7,464,403)	(1,199,875)	57,799	(8,606,479)
Total Capital Assets being depreciated	5,339,156	(10,447)	-	5,926,426
Capital Assets, Net	**$ 7,859,905**	**$ (10,447)**	**$ -**	**$ 8,447,175**

NOTE #7 – ESTIMATED THIRD PARTY PAYOR SETTLEMENTS AND COST REPORTS PAYABLE

Reimbursements and revenue recorded for services provided under the Medi-Cal program through the contract with LA DMH are subject to audit and retroactive adjustment 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". At June 30, 2023, no outstanding cost report payables exist.

Estimated Third Party Payor Settlements

Tri-City's Estimated Third Party Payor Settlements are included in current liabilities. Estimated Third Party Payor Settlements reflected in current liabilities is $6,324,285 at June 30, 2023. 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 2015 through fiscal 2023. The reserves for fiscal years 2015 through 2023 are estimated based on LAC DMH's past practice withholding percentages applied for each fiscal year. 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.

NOTE #8 – 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, 2023 was $5,344.

NOTE #8 – 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

NOTE #8 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

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, 2023 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	10.880%	7.590%

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

Contributions – Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for 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.

NOTE #8 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

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, 2023, Tri-City's contributions to the Plan were $1,877,761, which includes Tri-City's required contributions for the unfunded liability of $509,007.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - As of June 30, 2023, Tri-City reported a liability for its proportionate share of the net pension liability of the Plan of $8,262,600.

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, 2023 is measured as of June 30, 2022, 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, 2021 rolled forward to June 30, 2022 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, 2021 and 2022 is as a follows:

	Plan
Proportion - June 30, 2021	0.12127%
Proportion - June 30, 2022	0.17658%
Change in proportion- Increase (Decrease)	0.05531%

NOTE #8 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

At the year ended June 30, 2023, Tri-City recognized pension expense (credit) of $3,173,372 associated with the net pension liability. At June 30, 2023, Tri-City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources		
Tri-City contributions subsequent to measurement date	$	1,877,761
Changes of assumptions		846,676
Net difference between expected and actual earnings on pension plan investments		1,513,489
Changes in proportion and differences between Tri-City's contributions and proportionate share of contributions		116,705
Changes in employer's proportion		1,228,544
Differences between expected and actual experience		165,929
Total Deferred Outflows		5,749,104
Deferred Inflows of Resources		
Differences between expected and actual experience		(111,133)
Changes in proportion and differences between Tri-City's contributions and proportionate share of contributions		(126,195)
Total Deferred Inflows		(237,328)
Amounts Not Amortized		
Tri-City's contributions subsequent to measurement date		(1,877,761)
		-
Net Total Deferred Outflows and Inflows to be Amortized	$	3,634,015

The amount of $1,877,761 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, 2024. 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,		
2024	$	1,241,745
2025		973,545
2026		493,023
2027		925,702
Total	$	3,634,015

NOTE #8 – RETIREMENT PLAN/DEFERRED COMPENSATION, Continued

Actuarial Assumptions – The total pension liability of the Plan in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions.

Balance Sheet Date:	June 30, 2023
Valuation Date:	June 30, 2021
Measurement Date:	June 30, 2022
Actuarial Cost Method:	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Payroll Growth	2.50%
Projected Salary Increase	Varies by entry age and services
Investment Rate of Return	6.90% (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 #8 – 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, 2022 Measurement

Asset Class	Target Allocation	Expected Real Rate of Return [1,2]
Global Equity - Cap-weighted	30%	4.54%
Global Equity - Non-Cap-weighted	12%	3.84%
Private Equity	13%	7.28%
Treasurey	5%	0.27%
Mortgage-backed Securities	5%	0.50%
Investment Grade Corporates	10%	1.56%
High Yield	5%	2.27%
Emerging Market Debt	5%	2.48%
Private Debt	5%	3.57%
Real Assets	15%	3.21%
Leverage	-5%	0.59%
Total	100%	

[1] An expected inflation of 2.3% used for this period

[2] Figures are based on the 2021 Asset Liability Management study.

Discount Rate – The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE #8 – 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 6.90% 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:

1% Decrease		5.90%
Tri-City's Proportionate Share of the Net Pension Liability	$	14,073,481
Current Discount Rate		6.90%
Tri-City's Proportionate Share of the Net Pension Liability	$	8,262,600
1% Increase		7.90%
Tri-City's Proportionate Share of the Net Pension Liability	$	3,481,687

Pension Plan Fiduciary Net Position – Detailed information about the Plan's fiduciary net positions is available in the separately issued CalPERS financial reports.

NOTE #9 –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, 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, 2023.

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, 2023 MHSA Revenues Restricted for Future Period are $8,349,490.

NOTE #9 –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 year ended June 30, 2023:

June 30, 2023	Balance Beginning of Year	Funding Received	Amounts Recognized as Non-Operating Revenue	Reclassification of Previously Unapproved Programs	Balance End of Year
CSS	$11,335,644	$ 8,718,908	$ (13,039,819)	$ (64,485)	$ 6,950,248
PEI	1,679,987	2,165,191	(3,038,507)	-	806,671
INN	274,533	572,265	(274,534)	20,307	592,571
WET	-	-	-	-	-
CFTN	-	-	-	-	-
MHSA Revenues Restricted for Future Period	$13,290,164	$ 11,456,364	$ (16,352,860)	$ (44,178)	$ 8,349,490
Unearned MHSA Revenues	$ 1,027,955	$ 8,198	$ -	$ 44,178	$ 1,080,331

NOTE #10 – 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, 2023 by specific MHSA Program Plans.

Restricted Net Position for MHSA Programs

Community Services and Supports	*	$ 13,411,587
Prevention and Early Intervention		2,555,586
Innovation		1,079,070
Workforce, Education and Training		1,095,357
Capital Facilities and Technology Needs		2,293,968
Prudent Reserves		2,363,233
Total Restricted Net Position for MHSA Programs		$ 22,798,801

* 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. As such, the total amount of $22,798,801 in Restricted Net Position in MHSA programs includes the $2.8 million Note Receivable.

NOTE #11 – 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, 2023, 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 #11 – COMMITMENTS AND CONTINGENCIES, Continued

Medicaid/MHSA Programs & Grants

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 and various other grants. 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. During fiscal year 2022-23, the final amount was forgiven and at June 30, 2023, the outstanding balance of the loan was $0.

NOTE #12 –LEASES

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, 2023, there were a total of five leases with monthly payments ranging from $2,466 to $13,476.

In accordance with GASB 87, the present value of future monthly lease payments at a discount rate of 2.5% has been calculated to determine the beginning value of the right-to-use asset and the associated liability as of July 1, 2020. The discount rate of 2.5% was determined to be appropriate, as it is the rate explicitly stated in the lease agreements by which rent will be increased annually over the life of the lease. Accordingly, Tri-City has recognized a right-to-use asset in the amount of $1,753,343 with associated accumulated amortization of $1,037,395 as of June 30, 2023. Additionally, in accordance with GASB 87, lease liabilities were recognized in the amount of $715,948 as of June 30, 2023. Tri-City also recognized $357,971 in principal payments, $40,632 in interest expense, and $105,756 in operating expense for common area maintenance in fiscal years ended June 30, 2023.

The following table represent the annual amortization and interest expense over the remaining life of the agreements:

Years Ended June 30,	Principal Payments	Interest Payments	Total
2024	$ 357,971	$ 50,569	$ 408,540
2025	357,977	60,787	418,764
	$ 715,948	$ 111,356	$ 827,304

NOTE #13 – SBITA LIABILITIES

During the current year, Tri-City implemented GASB Statement number 96 recording various subscription IT assets and the associated liabilities. The applicable subscriptions are for various services ranging from the electronic health record system, the general ledger system, training software and the unified communications system.

In accordance with GASB 96, the present value of future subscription payments at a discount rate of 2.5% has been calculated to determine the beginning value of the right-to-use asset and the associated liability as of July 1, 2022. The discount rate of 2.5% was determined to be appropriate, as it is the rate explicitly stated in similar right-to-use agreements entered into by Tri-City. Accordingly, as of June 30, 2023, the value of the subscription liability was $960,430. The total amount of right to use subscription assets, and the related accumulated amortization on right to use subscription assets was $1,242,305 and $281,875, as of June 30, 2023, respectively.

A summary of the changes in subscription IT liabilities during the year ended June 30, 2023 is as follows:

	Balance Beginning, as Restated	Additions	Deletions	Balance End of Year	Due Within One Year
Subscription IT liabilities	$ 597,717	$ 644,588	$ (281,875)	$ 960,430	$ 293,741
	$ 597,717	$ 644,588	$ (281,875)	$ 960,430	$ 293,741

Remaining principal and interest payments on subscriptions are as follows:

Years Ended June 30,	Principal Payments	Interest Payments	Total
2024	$ 293,741	$ 15,020	$ 308,761
2025	291,125	14,988	306,113
2026	254,638	13,768	268,406
2027	120,926	7,312	128,238
	$ 960,430	$ 51,088	$ 1,011,518

NOTE #14 – ADOPTION OF NEW STANDARD

As of July 1, 2022, Tri-City adopted GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs). The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 96 as follows:

Net Position at July 1, 2022, as previously reported	$	33,849,109
Recognition of right to use subscription IT assets		597,717
Recognitions of subscription IT liabilities		(597,717)
Net Position at July 1, 2022, as restated	$	33,849,109

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	$ 2,000,000	$ 3,000,000	$ 10,000
Sexual Misconduct Liability	$ 1,000,000	$ 1,000,000	$ 10,000
General Liability/Employee Benefit Liability	$ 2,000,000	$ 3,000,000	$ 0 / $ 1,000
Workers Compensation	$ 1,000,000	1,000,000	$ -
Directors and Officers/EPL/Fiduciary Liability	$ 2,000,000	$ 6,000,000	$ 25/75/10k
Automobile	$ 1,000,000	$ 1,000,000	$ 1,000
Property-Building	$ 12,507,899	$ 12,507,899	$ 1,000
Property-Computer	$ 2,240,000	$ 2,240,000	$ 1,000
Cyber Liability	$ 3,000,000	$ 3,000,000	$ 25,000
Cyber Liability	$ 3,000,000	$ 3,000,000	$ 25,000
Excess Cyber Liability	$ 2,000,000	$ 2,000,000	$ 25,000
Volunteer Accident Policy	$ 10,000	$ 10,000	$ 100
Commercial Crime	$ 5,000,000	$ 5,000,000	$ 50,000
Earthquake / Flood	$ 5,000,000	$ 5,000,000	$ 50,000
Umbrella Excess Coverage	$ 2,000,000	$ 2,000,000	$ -

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 through June 30, 2025 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 2023 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. Tri-City has also 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 #11)*. 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 for fiscal year ending June 30, 2023. 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, 2023 Tri-City has received $100 in Measure H funds. During fiscal year 2022-23 Tri-City and the City of Claremont entered into an agreement to provide onsite Psychiatric Assessment Care Team (PACT) services to the Claremont Police Department where-in, the City would reimburse Tri-City for 50% of costs incurred.

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*

	2023	2022	2021	2020	2019	2018	2017
Proportion of the net pension liability	0.17658%	0.12127%	0.05814%	0.05331%	0.04834%	0.04780%	0.04370%
Proportionate share of the net pension liability	$ 8,262,600	$ 2,302,724	$ 6,325,906	$ 5,462,528	$ 4,658,577	$ 4,740,262	$ 3,781,246
Covered payroll **	$ 13,875,353	$ 13,885,388	$ 12,763,454	$ 11,750,054	$ 10,245,313	$ 10,121,504	$ 9,129,664
Proportionate share of the net pension liability as a percentage of covered payroll **	59.55%	16.58%	49.56%	46.49%	45.47%	46.83%	41.42%
The pension plan's fiduciary net position as a percentage of the total pension liability	78.19%	88.30%	77.71%	77.73%	77.69%	73.31%	74.06%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016

* Fiscal year 2017 was the first year in which GASB 68 was implemented, therefore only eight years are shown.
** Covered payroll represents earnable and pensionable compensation.

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

	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contributions	$ 1,877,761	$ 1,609,594	$ 1,586,047	$ 1,328,508	$ 1,134,877	$ 904,469	$ 861,026
Contributions in relation to the actuarially determined contribution	1,877,761	1,609,594	1,586,047	1,328,508	1,134,877	904,469	861,026
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll **	$ 15,878,389	$ 13,875,353	$ 13,885,388	$ 12,763,454	$ 11,750,054	$ 10,245,313	$ 10,121,504
Contributions as a percentage of covered payroll **	11.83%	11.60%	11.42%	10.41%	9.66%	8.83%	8.51%

* Fiscal year 2017 was the first year in which GASB 68 was implemented, therefore only eight years are shown.
** Covered payroll represents earnable and pensionable compensation.

NOTE TO SCHEDULES

Change in Assumptions – In 2023, the discount rate reduced from 7.15% to 6.90%.

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, 2023, and the related notes to the financial statements, which collectively comprise Tri-City's basic financial statements and have issued our report thereon dated March 15, 2024. Our report included an emphasis of matter paragraph describing Tri-City's implementation of Government Accounting Standards Board (GASB) Statement No. 96 – *Subscription-Based Information Technology Arrangements*, effective July 1, 2022.

Report on 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 opinions 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 or significant deficiencies may exist that were not been identified.

Report on 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 result 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
March 15, 2024