KPMG

METRO CITIES FIRE AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2014

(With Independent Auditors' Report Thereon)

METRO CITIES FIRE AUTHORITY

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Metro Cities Fire Authority:

We have audited the accompanying financial statements of Metro Cities Fire Authority (the Authority) as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metro Cities Fire Authority as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Authority's financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of proportional share of capital assets by member cities is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of proportional share of capital assets by member cities is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Irvine, California
January 15, 2015

METRO CITIES FIRE AUTHORITY

Statement of Net Position

June 30, 2014

Assets		
Current assets:		
Investments	$	950,370
Member contributions receivable		89,765
Interest receivable		4,762
Prepaid and other assets		59,532
Total current assets		1,104,429
Noncurrent assets:		
Member contributions receivable		33,000
Capital assets:		
Machinery and equipment		1,962,225
Work in progress		172,553
Total capital assets		2,134,778
Less accumulated depreciation		(816,994)
Capital assets, net		1,317,784
Total noncurrent assets		1,350,784
Total assets		2,455,213
Liabilities		
Current liabilities:		
Accounts payable		115,194
Accrued payroll		61,758
Member specific component deposits		348,669
Total current liabilities		525,621
Total liabilities		525,621
Net Position		
Net investment in capital assets		1,317,784
Unrestricted		611,808
Total net position	$	1,929,592

See accompanying notes to financial statements.

METRO CITIES FIRE AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2014

Operating revenues:		
Member agency contributions	$	4,993,565
Other revenues		16,630
Total operating revenues		5,010,195
Operating expenses:		
Salaries and wages reimbursements		3,787,444
Communication fees		530,200
Administration and overhead		511,586
Meetings and seminars		19,446
Office supplies and maintenance		49,480
Other operating		75,084
Depreciation		258,162
Total operating expenses		5,231,402
Operating loss		(221,207)
Nonoperating revenue:		
Interest income		14,688
Total nonoperating revenues		14,688
Loss before other changes in net position		(206,519)
Other changes in net position:		
Capital contributions		269,148
Change in net position		62,629
Net position at beginning of year		1,866,963
Net position at ending of year	$	1,929,592

See accompanying notes to financial statements.

METRO CITIES FIRE AUTHORITY

Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:		
Receipts from member agencies	$	4,870,800
Receipts from other income		422
Payments for wages and other benefits reimbursements		(3,813,097)
Payments to suppliers for goods and services		(633,371)
Payments to City of Anaheim for administration and overhead		(511,586)
Net cash used for operating activities		(86,832)
Cash flows from capital and related financing activities:		
Capital purchases		(164,066)
Capital contributions		10,000
Net cash used for capital and related financing activities		(154,066)
Cash flows from investing activities:		
Purchase of investment securities		(492,000)
Proceeds from sale and maturity of investment securities		169,264
Interest received		10,225
Net cash used for investing activities		(312,511)
Decrease in cash		(553,409)
Cash at beginning of year		553,409
Cash at end of year	$	—
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(221,207)
Adjustment to reconcile operating loss to net cash used for operating activities:		
Depreciation		258,162
Changes in assets and liabilities:		
Accounts receivable		(122,765)
Prepaid and other assets		14,883
Accounts payable		68,435
Wages payable		(25,653)
Member specific component deposits		(58,687)
Net cash used in operating activities	$	(86,832)
Schedule of noncash investing, capital, and noncapital financing activities:		
Capital contributions	$	259,148
Increase in fair value of investments		2,680

See accompanying notes to financial statements.

(1) Summary of Accounting Policies

(a) Organization

On July 1, 1996, the Metro Cities Fire Authority (the Authority) was created by a Joint Exercise of Powers Agreement (JPA) for the purposes of providing fire suppression, emergency medical assistance, rescue service, and related services to the members to support a central communication network and record-keeping systems. The Authority commenced operation on July 1, 1996.

The following entities are members of the Authority: City of Anaheim (the City), City of Brea, City of Fountain Valley, City of Fullerton, City of Garden Grove, City of Huntington Beach, City of Newport Beach, and the City of Orange. Members of the Board of Directors (the Board) consist of one voting Board member for each city and an alternate appointed by their governing body.

Public entities within the County of Orange, California (the County) may receive services from the Authority by executing an agreement and paying a "fair share" contribution determined annually. Each year the Board adopts a budget in order to determine the cost of services to the participating agencies.

All personnel of the Authority are employees of the City. The Authority and the City have entered into an agreement whereby the Authority is responsible for all costs relating to the City employees that are personnel of the Authority. In addition to salary costs, the Authority is contractually responsible for the cost of benefits for the City employees who work with the Authority. For the year ended June 30, 2014, the Authority paid the City $601,170 and $70,273 for pension and workers' compensation costs, respectively.

(b) Basis of Presentation

The Authority's financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

The financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues are those revenues that are generated from the Authority's primary operations. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the Authority's primary operations. Capital contributions are reported as other changes in net position. All other expenses are reported as nonoperating expenses.

(c) Investments

The Authority participates in investment pool managed by the City of Anaheim, which is an external investment pool and is not SEC-registered. The Authority's investment in the pool is carried at fair value based on the value of each participating unit.

(Continued)

(d) Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated assets are valued at fair value on the date they were contributed. The costs of normal maintenance and repairs that do not add value to the assets or materially extend the useful life are not capitalized. Capital assets are depreciated using the straight-line method over a useful life ranging from 5 to 10 years.

(e) Member Specific Component Deposits

Member specific components were established by the Authority to assist members to defray future costs. They represent amounts deposited by the members to be used for specific purposes. A "Member Specific Communications Equipment Replacement" component was established to defray future replacement costs of member specific communication equipment. The member specific components consisted of the following at June 30, 2014:

Communication equipment replacement:		
City of Anaheim	$	43,234
City of Fountain Valley		41,837
City of Fullerton		36
City of Garden Grove		163,029
City of Huntington Beach		61,884
City of Orange		38,649
Total member specific components	$	348,669

(f) Net Position

Net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

(Continued)

At June 30, 2014, there was no restricted net position for the Authority. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources when they are needed.

(g) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

(2) Investments

The Authority's investment policy allows all funds to be invested with the City. The City's investment policy limits the permitted investments in the investment pool to the following: Obligations of the U.S. government, federal agencies, and government-sponsored enterprises, medium-term corporate notes, certificates of deposit, bankers' acceptances, commercial paper, LAIF, repurchase agreements, reverse repurchase agreements, and money market mutual funds. As of June 30, 2014, the City's pooled investment fund has been reviewed by Standard and Poor's Corporation (S&P) and received a credit rating of AAf/S1 and has a weighted average maturity of 1.91 years.

(3) Member Contributions Receivable

Member contributions receivable at June 30, 2014 totaled $122,765, of this amount $44,000 is due from the City of Brea for remaining contributions to the communication equipment Authority reserve. $78,765 is the additional fair share contributions billed to member agencies to balance the fiscal year 2014 budget. Allocation of this amount is as follows:

City of Anaheim	$	23,851
City of Brea		3,119
City of Fountain Valley		3,828
City of Fullerton		9,129
City of Garden Grove		9,026
City of Huntington Beach		12,870
City of Newport Beach		7,892
City of Orange		9,050
Total	$	78,765

(4) Member Agency Contributions

The Authority collects fair share contributions from its member agencies. The contribution amount for member agencies is calculated each year based upon the number of recorded incidents attributed to each member, divided by the recorded incidents attributable to all members, during the calendar year proceeding the fiscal year for which that member's fair share percentage is being calculated. Once determined for any fiscal year, the member fair share percentage shall remain unchanged. The percentages and amounts of the member agency contributions consisted of the following for the fiscal year ended June 30, 2014 by member agencies:

		Amount	Percentage
City of Anaheim	$	1,495,399	30.28%
City of Brea		195,567	3.96
City of Fountain Valley		240,014	4.86
City of Fullerton		572,380	11.59
City of Garden Grove		565,959	11.46
City of Huntington Beach		806,961	16.34
City of Newport Beach		494,844	10.02
City of Orange		567,441	11.49
Total		4,938,565	100.00%
Additional contributions			
City of Brea		55,000[1]	
Total member agency contributions	$	4,993,565	

[1] A total of $55,000, which includes $25,000 for cost reimbursements and a $30,000 buy-in fee will be paid by the City of Brea over a period of five years per the JPA Agreement. The City of Brea made an $11,000 payment during fiscal year 2014, with the remaining balance of $44,000 reported as a receivable.

(5) Capital Assets

Capital asset activities for the year ended June 30, 2014 were as follows:

		Beginning balance	Additions	Deletions	Ending balance
Nondepreciable assets:					
Work in progress	$	—	172,553	—	172,553
Total		—	172,553	—	172,553
Depreciable assets:					
Machinery and equipment		1,716,171	250,661	(4,607)	1,962,225
Less accumulated depreciation		(563,439)	(258,162)	4,607	(816,994)
Total depreciable assets, net		1,152,732	(7,501)	—	1,145,231
Total capital assets, net	$	1,152,732	165,052	—	1,317,784

(6) Administration of the JPA

Administrative services required for the operation of the Communications Center, management, and administration of the personnel are administered by the City of Anaheim. For the fiscal year ended June 30, 2014, administration fees paid to the City were $511,586 per the JPA Agreement.

(7) Risk Management

The Authority is self-insured for general liability claims. The amount of claims paid out is distributed amongst each member for reimbursement. In the event an unfunded liability arises, the contribution of each member shall be in an amount equal to the total unfunded liability multiplied by that member's percentage of budget. At June 30, 3014, the Authority did not have any claims outstanding nor did the Authority pay any claims during the year.

(8) Commitments and Contingencies

Lawsuits

In the ordinary course of business, the Authority is subject to various claims, investigations, proceedings, tax assessments, and legal actions from time to time arising out of the conduct of the Authority's business. Management believes that, based on current knowledge, the outcome of any such pending matters will not have a material adverse effect on the Authority's financial position.

Commitments

The Authority does not have any major contractual commitments or contingencies as of June 30, 2014

SUPPLEMENTARY INFORMATION

METRO CITIES FIRE AUTHORITY

Schedule of Proportionate Share of Capital Assets by Member Cities

June 30, 2014

The proportional share of the capital assets allocable to each of the member cities consisted of the following as of June 30, 2014:

Communication equipment:		
City of Anaheim	$	675,623
City of Brea		16,577
City of Fountain Valley		106,135
City of Fullerton		257,735
City of Garden Grove		267,269
City of Huntington Beach		349,514
City of Newport Beach		210,812
City of Orange		251,113
Total		2,134,778
Less accumulated depreciation		(816,994)
Total capital assets	$	1,317,784

See accompanying independent auditors’ report.