METRO CITIES FIRE AUTHORITY

Basic Financial Statements and Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

METRO CITIES FIRE AUTHORITY

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Basic Financial Statements:	
Statements of Net Position	3
Statements of Revenue, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Basic Financial Statements	6–11
Supplementary Information	
Schedule of Proportionate Share of Capital Assets by Member Cities	12

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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 years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended 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 audits. We conducted our audits 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, 2017 and 2016, and the changes in its financial position and its cash flows for the years 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 audits were conducted for the purpose of forming an opinion on the 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. The 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. Such 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
December 20, 2017

METRO CITIES FIRE AUTHORITY

Statements of Net Position

June 30, 2017 and 2016

Assets		**2017**	**2016**
Current assets:			
Investments	$	916,777	923,317
Member contributions receivable		23,307	11,000
Accounts receivable		3,636	45,719
Interest receivable		5,202	4,137
Prepaid and other assets		27,745	29,766
Total current assets		976,667	1,013,939
Noncurrent assets:			
Member contributions receivable, net of current portion		—	11,000
Capital assets:			
Machinery and equipment		2,060,037	1,887,796
Work in progress		58,235	—
Total capital assets		2,118,272	1,887,796
Less accumulated depreciation		(1,345,867)	(1,068,936)
Capital assets, net		772,405	818,860
Total noncurrent assets		772,405	829,860
Total assets		1,749,072	1,843,799
Liabilities			
Current liabilities:			
Accounts payable		19,855	7,925
Accrued payroll		73,073	60,912
Member-specific component deposits		140,074	237,625
Total current liabilities		233,002	306,462
Total liabilities		233,002	306,462
Net Position			
Net investment in capital assets		772,405	818,860
Unrestricted		743,665	718,477
Total net position	$	1,516,070	1,537,337

See accompanying notes to basic financial statements.

METRO CITIES FIRE AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

		2017	2016
Operating revenue:			
Member agency contributions	$	5,996,441	5,657,553
Additional member agency contributions		76,930	—
Other revenues		5,322	43,395
Total operating revenue		6,078,693	5,700,948
Operating expenses:			
Salaries and wages reimbursements		4,552,139	4,392,714
Communication fees		479,558	513,238
Administration and overhead		636,042	599,738
Meetings and seminars		11,594	13,125
Office supplies and maintenance		39,925	45,990
Other operating		114,808	75,800
Depreciation		276,931	290,999
Total operating expenses		6,110,997	5,931,604
Operating loss		(32,304)	(230,656)
Nonoperating revenue:			
Interest income		11,037	14,195
Total nonoperating revenue		11,037	14,195
Change in net position		(21,267)	(216,461)
Net position at beginning of year		1,537,337	1,753,798
Net position at ending of year	$	1,516,070	1,537,337

See accompanying notes to basic financial statements.

METRO CITIES FIRE AUTHORITY

Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Receipts from member agencies	$	6,072,064	5,668,553
Receipts from other revenue		47,088	30,910
Payments for wages and other benefits reimbursements		(4,539,978)	(4,405,971)
Payments to suppliers for goods and services		(729,168)	(651,126)
Payments to City of Anaheim for administration and overhead		(636,042)	(599,738)
Net cash provided by operating activities		213,964	42,628
Cash flows from capital and related financing activities:			
Capital purchases		(230,476)	(74,726)
Net cash used in capital and related financing activities		(230,476)	(74,726)
Cash flows from investing activities:			
Purchase of investment securities		(335,000)	(284,000)
Proceeds from sale and maturity of investment securities		335,411	305,361
Interest received		16,101	10,737
Net cash provided by investing activities		16,512	32,098
Change in cash		—	—
Cash at beginning of year		—	—
Cash at end of year	$	—	—
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	$	(32,304)	(230,656)
Adjustment to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation		276,931	290,999
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		42,083	(15,463)
Member contributions receivable		(1,307)	11,000
Prepaid and other assets		2,021	14,883
Accounts payable		11,930	(2,207)
Accrued payroll		12,161	(13,257)
Member-specific component deposits		(97,551)	(12,671)
Net cash provided by operating activities	$	213,964	42,628
Schedule of noncash investing, capital, and noncapital financing activity:			
Increase (decrease) in fair value of investments	$	(6,129)	2,831

See accompanying notes to basic 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 years ended June 30, 2017 and 2016, the Authority paid the City $596,816 and $579,281 for pension, $42,007 and $41,334 for 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 statements of net position. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when incurred.

Operating revenue is the revenue that is generated from the Authority’s primary operations. All other revenue is reported as nonoperating revenue. 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) Fair Value Measurements

The Authority uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Authority's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Authority groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. This valuation is accomplished using management's best estimate of fair value, with inputs into the determination of fair value that require significant management judgment or estimation. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

(d) Investments

The Authority participates in the investment pool managed by the City of Anaheim, which is an external investment pool and is not Security Exchange Commission registered. The Authority's investment in the pool is carried at fair value based on the value of each participating unit and are accordingly not leveled in the fair value hierarchy.

(e) 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.

(f) 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, 2017 and 2016:

		2017	2016
Communication equipment replacement:			
City of Anaheim	$	398	391
City of Fountain Valley		34,624	37,816
City of Fullerton		36	36
City of Garden Grove		60,353	114,213
City of Huntington Beach		24,793	55,108
City of Orange		19,870	30,061
Total member-specific components	$	140,074	237,625

(g) Net Position

Net position represents the difference between all other elements in the statements 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.

At June 30, 2017 and 2016, 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.

(h) 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.

(Continued)

(2) Investments

The Authority's investment policy allows all funds to be invested with the City. As of June 30, 2017 and 2016, the Authority had $916,777 and $923,317 invested in the City's pooled investment fund, respectively. 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, 2017 and 2016, the City's pooled investment fund has been reviewed by Standard and Poor's Corporation and received a credit rating of AAf/S1 for both years and has a weighted average maturity of 1.76 and 1.54 years, respectively.

(3) Member Contributions Receivable

Member contributions receivable at June 30, 2017 totaled $23,307 of which $11,000 is due from the City of Brea for remaining contributions to the communication equipment Authority reserve; the other balances are due from other members for the FirstWatch software purchase discussed in note 5.

		2017	2016
City of Brea	$	11,000	22,000
City of Anaheim		2,361	—
City of Brea		308	—
City of Fullerton		8,900	—
City of Newport Beach		738	—
Total	$	23,307	22,000

(4) Accounts Receivable

Accounts receivable at June 30, 2017 and 2016 consisted of the following:

		2017	2016
State of California	$	—	40,829
AMEA		974	1,912
Miscellaneous		2,662	2,978
Total	$	3,636	45,719

(5) 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's fair share percentage shall remain unchanged. The percentages and amounts of the member agency contributions consisted of the following for the fiscal years ended June 30, 2017 and 2016 by member agencies:

	2017			2016	
	Amount	Software Purchase[1]	Percentage	Amount	Percentage
City of Anaheim	$ 1,840,308	$ 23,610	30.69 %	$ 1,710,279	30.23 %
City of Brea	239,858	3,077	4.00	232,525	4.11
City of Fountain Valley	279,434	3,585	4.66	266,471	4.71
City of Fullerton	693,788	8,901	11.57	663,065	11.72
City of Garden Grove	686,593	8,808	11.45	651,184	11.51
City of Huntington Beach	985,214	12,640	16.43	909,169	16.07
City of Newport Beach	575,059	7,378	9.59	575,373	10.17
City of Orange	696,187	8,931	11.61	649,487	11.48
Total	$ 5,996,441	$ 76,930	100.00 %	$ 5,657,553	100.00 %

[1] On January 26, 2017, the Board approved the purchase of FirstWatch software in the amount of $106,796 of which $29,866 was paid from the Authority's available resources and $76,930 as a fair share contribution from each member agency using their fiscal year 2016-2017 fair share percentages by either using their respective Member Specific Account or invoicing them for their amount.

(6) Capital Assets

Capital asset activities for the year ended June 30, 2017 were as follows:

	Beginning balance	Additions	Deletions	Ending balance
Non depreciable assets:				
Work in progress	—	$ 58,235	—	$ 58,235
Total non depreciable asset	—	58,235	—	58,235
Depreciable assets:				
Machinery and equipment	$ 1,887,796	172,241	—	2,060,037
Less accumulated depreciation	(1,068,936)	(276,931)	—	(1,345,867)
Total depreciable assets, net	818,860	(104,690)	—	714,170
Total capital assets, net	$ 818,860	(46,455)	—	$ 772,405

Capital asset activities for the year ended June 30, 2016 were as follows:

		Beginning balance	Additions	Deletions	Ending balance
Depreciable assets:					
Machinery and equipment	$	2,134,778	74,726	(321,708)	1,887,796
Less accumulated depreciation		(1,099,645)	(290,999)	321,708	(1,068,936)
Total depreciable assets, net		1,035,133	(216,273)	—	818,860
Total capital assets, net	$	1,035,133	(216,273)	—	818,860

(7) 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 years ended June 30, 2017 and 2016, administration fees (amounts other than payments for pension and worker's compensation costs discussed in note 1 of this report) paid to the City were $636,042 and $599,738, respectively, per the JPA Agreement.

(8) Risk Management

The Authority is self-insured for general liability claims. The amount of claims paid out is distributed among 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, 2017 and 2016, the Authority did not have any claims outstanding nor did the Authority pay any claims during the years then ended.

(9) 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 is one of the participants of the 800 Megahertz Countywide Coordinated Communication System (CCCS). The CCCS allows all police, fire, public works, and marine safety agencies in Orange County to share a common radio system, yet still provide agencies their own unique dispatch and tactical channel in addition to seamless interoperability through the County. The CCCS is currently under upgrade and requires financial participation from agency participants. On January 26, 2017, the Board approved a fifteen year payment plan with an annual payment of $163,189 to be funded through annual member agency contributions.

The Authority does not have any other major contractual commitments or contingencies as of June 30, 2017 and 2016.

SUPPLEMENTARY INFORMATION

METRO CITIES FIRE AUTHORITY

Schedule of Proportionate Share of Capital Assets by Member Cities

Years ended June 30, 2017 and 2016

The proportional share of the capital assets allocable to each of the member cities consisted of the following as of June 30, 2017 and 2016:

		2017	2016
Communication equipment:			
City of Anaheim	$	641,414	570,681
City of Brea		86,807	77,588
City of Fountain Valley		99,655	88,915
City of Fullerton		247,916	221,250
City of Garden Grove		243,675	217,285
City of Huntington Beach		341,236	303,369
City of Newport Beach		214,092	191,989
City of Orange		243,477	216,719
Total		2,118,272	1,887,796
Less accumulated depreciation		(1,345,867)	(1,068,936)
Total capital assets	$	772,405	818,860

See accompanying independent auditors' report.